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GENERAL

Articles Analyzes U.S. Downing of Iranian Airliner

40050378 Shanghai GUOJI ZHANHANG [WORLD OUTLOOK] in Chinese No 14, 23 Jul 88 pp 5-7

[Article by Xiao Gu 2556 6253: "Aftermath of U.S. Downing of Iranian Airliner"]

[Text] Above the shiny waves of the bay, several Iranian helicopters were working intensely and on several U.S. warships nearby, many sailors leaned on the rails to watch the Iranians retrieving dead bodies from the sea. This was a "masterpiece" of the American armed forces. At 1017 a.m. on 3 July, the American cruiser Vincennes fired a missile in broad daylight and hit a large A300 airliner of the Iranian Civil Aviation Company. All the 290 passengers aboard were killed instantly. Even President Reagan could not but acknowledge this event to be a "terrible human tragedy."

The Bad Result of Bringing U.S. Forces Into the Gulf

When the United States began to introduce forces into the Gulf a year ago, ostensibly to escort tankers, opinions in international circles suggested that this move on the part of the United States would not contribute to the resolution of the dispute between Iran and Iraq; it could only cause the relationship between the United States and Iran to deteriorate further to increase the complexity of the situation in the Persian Gulf.

Events of the past year have proved that danger signs in the Gulf multiply continuously. The United States and Iran have been in a tense confrontation with one another in the Gulf, shooting matches have occurred now and then, warships of Western countries converged in the Gulf, and the air space above the Gulf appeared to become smaller all the time. If the downing of the Iranian airliner can be said to be an "accident," it was, first of all, a bad result of introducing U.S. forces into the Gulf.

All experts know that the U.S. cruiser Vincennes is equipped with advanced naval combat and radar systems. It can track more than 200 targets at once, within a radius of 240 nautical miles, and it can also input information from various types of aircrafts to verify its own data and to identify the enemy. How was it possible for the cruiser to mistake the large A300 for a small F14 fighter plane? This reminds one of the series of mishaps which have beset the U.S. armed forces all over the world in recent years. Some believe that these events may be related to the deteriorating quality of U.S. military personnel.

One foreign newspaper article pointed out that despite superior science and technology and advanced equipment, at the crucial moment, it is still necessary for the U.S. armed forces to rely upon training, experience, and

judgment. In May of last year, the U.S. naval vessel, Stark, was attacked by an Iraqi aircraft, resulting in the death of 37 servicemen. Later, a U.S. frigate exploded after hitting a mine. Perhaps U.S. servicemen in the Gulf were, by then, experiencing a high degree of tension and stress, like a bird just missed by an arrow. This might be the reason for the A300 tragedy.

There have also been others who believe this tragedy may be related to a psychology of revenge on the part of the Americans. After the Ayatollah Khomeyni assumed power, the relationship between Iran and the United States deteriorated. Iran attacked the U.S. Embassy and took hostages; the Americans have never been able to forget this. Since U.S. naval vessels entered the Gulf in July of last year, using the need for convoys as an excuse, Iran has repeatedly announced its intention of making the United States bleed in the Gulf and has been "knocking out the teeth of the United States" all over the world.

Iran's armed speed boats attacked U.S. warships and helicopters in the Gulf region many times. On 14 April, a U.S. warship hit a mine laid by Iran and more than 10 persons were wounded. For this the United States was very angry and declared repeatedly that Iran should be taught a lesson. Ever since, the U.S. military forces in the Gulf have been waiting for a chance to strike. With the U.S. military driven by this type of vindictive psychology, it is certainly possible to become careless and rash toward any Iranian target. This is to say that the downing of the Iranian airliner may be said to have been expected because, if not that airliner, some similar event was waiting to happen.

Iran Expresses Anger but Does not Lose Reason

Naturally, Iranians are very angered by the matter of the U.S. downing of the airliner, and anti-American sentiment in Iran rose again. The extremists who had been losing their appeal gained popularity once again. The Ayatollah Ali Montazeri went as far as demanding Khomeyni to order all "defensive systems to attack American interests all over the world" in order to avenge the airplane affair. The Iranian Ambassador to the UN, also said in New York that "Iran will use every measure to retaliate" and "there is no limit to revenge." When the U.S. State Department heard this, warnings were dispatched all through the night to all American airbases in the world to watch out for Iranian terrorist attacks.

Contrary to expectations, after a short period of agitation, Iranians did not put their threat of retaliation into action. On 9 July, the speaker of the Iranian Parliament and the country's supreme military commander, Rafsanjani, publicly announced that Iran will not retaliate against the United States for the downing of the Iranian airliner. He said, "The United States attempted to force us to commit their kind of crimes.... But, if we do so, the whole world will oppose us.... This is the reason why we are not in a hurry to retaliate." Just before he said this,

he demanded that this matter should be extensively propagandized in the world so that "everyone in the world will know this criminal act." Foreign news commentary mentioned the fact that on the basis of this incident Iran has launched a coordinated diplomatic assault. In view of the past few years, this is a rare event indeed.

Observers believe the "unusual restraint" displayed by Iran with respect to this incident may be related to Iran's current situation. After nearly 8 years of war with Iraq, Iran is now at a disadvantage in all aspects. Economically speaking, Iraq exports 2.5 million barrels of crude oil everyday; all are delivered on land through pipelines. The ocean passage through the Strait of Hormuz has no effect on Iraq, and Iran can do nothing to Iraq in this respect. Iran exports 1.3 million barrels of crude oil a day and all of it have to be shipped on the sea and are constantly being bombarded by Iraq. Moreover, Iraq needs to feed 14 million people, while Iran needs to feed 52 million.

Militarily speaking, Iran has lost battle after battle. It lost in its effort to invade cities. In the oil war, Iran has been immobilized by the U.S. convoy action. On 8 April this year, Iran lost its position on the Faw Peninsula, on 25 May lost Salamushia, on 25 June withdrew from Majnoon Island, and on 30 June lost dozens of strategic high points in Kurdistan. These grim realities have begun to make Iranians realize that their "revolution" is gradually losing the protection of Allah. In order to change its position of international isolation, the Iranian government has begun to be aware of the fact that it has made too many enemies in the past and decided to adjust its diplomatic policy to improve its relations with some Western countries. Through a third country, it also has begun to express its willingness to talk with the United States.

Obviously, these changes were temporary expedient measures, but to a certain extent they do reflect the direction of the Iranian government after Khomeyni. With respect to the airliner incident, Iran chose an even more sensible approach. The attitude of Iran further indicates that its basic goal remains winning the war against Iraq; therefore, in order to avoid fighting both sides, it cannot but act with restraint toward the United States.

While Covering Up in Every Possible Way, the United States Gradually Fell Back

After the incident, the U.S. at first denied it happened; then acknowledged it. Yet, when President Reagan expressed his regrets, he stressed the point that the action is understandable as a "proper defensive move." He gave four reasons: 1) The airliner was not flying in a normal commercial lane; 2) The airliner rushed toward Vincennes, in an attack posture; 3) The airliner ignored the warnings of the U.S. warship; 4) The airliner issued

F14 fighter plane identification signals. These four reasons cannot withstand the scrutiny of the experts. An analysis of the data showed that it was not possible for the Iranian airliner to alter its flight direction at that time, and it was hit only 8 minutes after take-off. That is to say the airliner had just gotten into the air, it was not possible for it to descend rapidly. It is obvious that the United States was using a lame argument.

Although the U.S. was making every attempt to cover up, its approach was in fact a gradual retrenchment. Reagan first expressed his "regrets" with respect to the incident; followed by a roundabout apology to Iran. After Iran had indicated that it was not going to retaliate, Reagan quickly offered compensation to the victims of the airliner disaster. At the same time Reagan also sent telegrams of condolences to the countries of the killed passengers, including Pakistan, Algeria, Kuwait, India, Yugoslavia, and Italy. He apologized to them as well.

There are, generally speaking, three reasons for the United States to take this approach. First this is an election year in the United States. Polls indicate that the Democratic candidate, Dukakis' voice is being heard loud and clear. This is perhaps related to Reagan's recent drop in prestige; therefore, Reagan attempted to minimize the effect of this incident so as to avoid the impression of a failure of the U.S. Gulf policy. Second, the United States was worried about a resurgence of power of the radicals in Iran because that would make it more difficult to develop U.S.-Iran relations in the future.

To the United States, Iran remains closely related to its interests. The U.S. had established secret contacts with the "moderates" headed by Rafsanjani but the secret was leaked out by the "radicals" headed by Montazeri. As a result, the power of the "moderates" suffered a setback and the Reagan government was also badly embarrassed by "Irangate." Americans know clearly, however, any future dealings between the United States and Iran must be with Rafsanjani. Thus, after Rafsanjani said Iran was not to retaliate against the United States, the United States responded to Iran's demand and adopted a calm posture in order to prevent the "radicals" from rising and help the establishment of a relationship with the Iranian government after Khomeyni.

Moreover, countries of the Western Alliance also do not wish for U.S.-Iran relations to deteriorate. On 16 June, after helping the U.S. to win release of hostages in Lebanon, France announced restoration of diplomatic relations with Iran, which had been interrupted for 11 months. Soon afterwards, Britain also reached an agreement with Iran with respect to the problem of property compensation. If U.S.-Iran relations should turn tense once again, Iran's relations with these Western countries would have to be affected. This concern of the Western Alliance countries cannot but become part of Reagan's considerations.

Although both sides left a great deal of latitude in their dealings with this incident, the downing of the Iranian airliner had to damage the feelings of Iranians toward the United States. Reagan declared the incident to be closed; but in reality, in many ways, it had just begun. A related international organization is conducting investigations of the incident. On 11 July, three terrorists attacked a Greek cruise ship in the Aegean Sea, causing the death of many Western tourists. The terrorists declared afterwards that their action was a revenge against the United States for the downing of the Iranian airliner. From the Gulf, there also were news of renewed shooting matches between the U.S. and Iran. It appeared that new and old

animosities between the United States and Iran are not to vanish in a hurry. World opinion is also criticizing Reagan's Gulf policy and is calling for the United States to withdraw its forces from the Gulf. Reagan, however, has declared that he will not change U.S. Gulf policy because of the Iranian airliner incident and U.S. warships will continue their convoy duty in the Gulf. For this reason, it is generally believed that the Gulf remains a place of recurrent crises and the entire situation is still rather explosive.

6248

CAS Head Says Worry About Scientists Leaving Country 'Unnecessary'

*OW1509115388 Beijing XINHUA in English
1103 GMT 15 Sep 88*

[Text] Beijing, September 15 (XINHUA)—It is unnecessary to be too worried about the outflow of Chinese scientists to foreign countries and put too much pressure on them, said Zhou Guangzhao, president of the Chinese Academy of Sciences.

In an interview with two reporters from Taiwan yesterday, Zhou said there is no national border for sciences as scientific research is universal and needs international exchange.

But, Zhou stressed, a scientist has his own country. "Generally speaking, most of the Chinese scientists in foreign countries are patriotic and would like to make contributions to their motherland wherever they are living now."

Zhou said that the scientists who are doing scientific research at home and have made great contributions to the country will never be forgotten in Chinese history or by the Chinese people.

For instance, he said, people always remember Zhan Tianyou, who studied in the United States and designed the first railway in China after he returned.

Zhou believed that most of the Chinese students will come back from foreign countries after they finish their studies.

"It is true that the academic research facilities and living conditions are still not ideal at home, but here is a vast land in which they can pioneer great causes," Zhou pointed out.

The two Taiwan reporters, Vivian Young from the CHINA TIMES and Jay Fang from the CHINA TIMES EXPRESS, are here specially for the 22nd General Assembly of the International Council of Scientific Unions currently being held in Beijing.

Measures To Improve Public Service Administration System Proposed

40050418 Shenyang LILUN YU SHIJIAN [THEORY AND PRACTICE] in Chinese No 6, 6 Jun 8 pp 44-46

[Article by Sun Zhenyuan 1327 2182 0337, Huang Ming 7806 2494, Yin Hui 1438 6540, and Luo Liang 7482 5328: "Boldly Borrow from the Experiences of Foreign Countries in Establishing a Public Service System with Chinese Characteristics"]

[Excerpt] The civil service systems of Western countries have played an important role in those countries in the

selection and retention of various kinds of skilled personnel, the raising of administrative efficiency, maintaining government stability the continuation of policies under a system in which multiple parties compete with one another, and in bringing about economic prosperity and social development. In one sense, the Western civil service system is the crystallization of mankind's political wisdom, and can serve as an important reference for China as we establish our public service system. We believe that we should establish a socialist public service system with Chinese characteristics, keeping in mind the actual needs of China and we should do this by boldly using what we can learn from the advanced experiences of the Western countries and by adhering to the following principles:

1. There should be open competition for professional public servants and a system of appointment by examination.

A system of selecting officials by examination existed in China in ancient times. The public examinations of Western civil service systems are even derived from ancient China's examination system, which was already quite advanced. And as we now advocate a system of appointment by examination as the primary means of selecting public servants, we want to both carefully review the experience China has had in this practice for so many years and selectively study the experience of other countries. The principle we should follow in using a system of appointment through examination is that we must follow legal practices and the principles of equality, openness, and competition. By a 'legal system' we mean the formulation and implementation of rules governing the public servant where legal means are used to establish the principles, standards, procedures, and safeguards governing the hiring of public servants, all to achieve fairness under the law. All qualified citizens may legally take examinations for public service and this will provide an equal opportunity for a large number of able persons or potentially able persons to reveal their abilities. By the principle of 'openness', we mean that the examinations should be held publicly; the state should announce examinations at periodic intervals; and the admission procedure, examination topics, examination scores, job requirements, examination results, and names of those being appointed should all be available to the public for their inspection. The principle of competition holds that names are to be ranked according to examination scores, which will distinguish the good candidates from the bad, and allow the cream to rise to the top. The names of those who pass will appear on a list in order of test results and will be publicly displayed and announced. Only after this will employing organizations examine the political character and qualifications of the prospective candidates. Appointees will be selected in order from first to last among those who qualify. Only in this way can we ensure that more and more talented personnel will show themselves in tests of knowledge, ability, and skill.

2. There should be a promotion system for professional public servants based on an examination of work credits.

After public servants have entered state administrative organizations through examination, we cannot blindly assume that they will become outstanding public servants. Therefore, we should establish on-the-job management methods to select the best and get rid of the rest, and to reward and punish, which together would constitute a promotional system centered on an examination of achievement.

The report of the 13th CPC Congress clearly stated that examination of public servants shall be undertaken in accordance with legally defined standards and procedures, and that their promotion and demotion should be handled through a full scale review of their achievements on the job and the necessary examinations, with promotion of the most able therefrom. The review should be made of the four aspects, morality, ability, diligence, and achievement, with emphasis on the work record. We must first of all conduct a regular and diverse review of the public servant to gain a consensus of the leaders and the public that reflects the normal situation, that integrates quantitative and qualitative aspects, that is democratic, and that results from public examinations. Second, we should consider outstanding political achievement in accordance with a system of personal responsibility and in view of the combined factors of morality, ability, diligence, and achievement. The results of this review will directly affect rewards and promotion. For those who are to be promoted, necessary tests will be administered to determine promotion after the review. Third, we should implement a "job location points method," the general requirements for which would be first, to determine some basic examination factors and standards, to mark with points each level of each factor, from which we would derive a standard grading curve. Then, we would compare the various factors of the examinee against the basic examination factors. A grade would be obtained and the marks added together after which we would calculate an overall mark. Then we would compare this overall mark against various predetermined grades: outstanding, qualified, basically qualified, and unqualified. This procedure would serve as the basis for promotions and rewards for public servants. The rewards and punishments would be clear for those who are to be rewarded for accomplishments or punished for transgressions. It would definitely not be as before, when rewards and punishments depended upon qualifications and personal feelings. The old practice allowed the mediocre to fill positions of leadership. The new practice would not allow positions to become "favors" or "presents" that depended upon connections and family status.

3. We should employ a system of managing public servants according to type and we should categorize positions.

Public servants should be managed according to type. Public servants can be divided into three groups: administrative executives, specialists, and organizational functionaries. By the administrative executive category, we

mean public servants who are in charge of departmental administration; by specialists, we mean public servants who work in purely technical positions; and by organizational functionaries, we mean public servants who are in charge of logistical services. By supervising the various categories of public servants in accordance with the limits of their authority, we can form a complete management system that unites a manager with the affairs he manages.

Job classification means classifying, naming, assigning levels, determining remuneration, and formulating the scope of activities for the public service positions in government. Classification is made according to the nature of the work, its degree of difficulty, degree of responsibility, as well as the necessary qualifications. The responsibilities and authority (including quantitative and qualitative job limits, objectives, and duties) for each position in a unit are clarified; and the job qualifications (including character, knowledge, education, experience, abilities, and energy) for taking a position are detailed to work out rules and regulations to establish the position, and also to determine the wages for each position and other standards of remuneration. Job classifications provide objective standards for selecting a person for a particular job, seeking a particular talent for a particular job, uniformity of specialization, and at the same time benefiting examinations and the standardization, particularization, and systemization of the testing system.

4. There would be training for professional public servants before they began a job, while on the job, as part of a promotion, and at the end of a job.

The institution of a systematic training program of pre-job, on-the-job, promotional, and post-job training is a legal responsibility and duty in the creation of a public service system.

The implementation of a national public service system will standardize and legalize training for public servants and this is a complementary course that cannot be deviated from. We should first of all set up a central school and some local administrative ones to train for administrative management. This training will be in addition to the more specialized training of undergraduate majors and graduate students and will bring qualified public servants to all levels of government. Second, we should establish some public service training centers that would be responsible for training and refreshing professional public servants. Such training should be oriented toward particular positions and should be based on standards that vary with the depth and breadth required by different positions, levels, and knowledge requirements for public servants of different classifications. One such type of training is pre-job training, which has as its objective the training of public servants who have qualified by examination and are about to take up a particular position. Another such type would be for public servants who are already working. This type of

training will constantly renew professional knowledge and improve management skills. A third type of training would be for public servants who are eligible for promotion. This type of training will allow them to meet the demands of new jobs. A fourth type of training would be short-term and specialized with the goal of making public servants able to meet job requirements of different duration. This training would organically combine training and practice. Fifth, we must place a training record in the files of public servants. The record would document the marks and various indicators for officials who have been trained and serve as one way for a prospective employer to become familiar with a review the work of an official. Sixth, personnel sections at the prefectural and municipal levels or higher should issue training certificates of a uniform format for training of all kinds, and this would also provide a personal guarantee and periodic record as a basis for promotion reviews.

5. We should strengthen personnel administrative structures and legalize personnel management.

An important aspect of the formation of a national public service system is the establishment of national public service administrative organizations. Legalizing a personnel management system would guarantee the standardization and objectivity of the personnel management effort. Therefore, we should draw up general rules and regulations for personnel management, establish the basic standards, and then accordingly formulate various rules and work out the details of implementation. As with the "National Public Service Regulations," "Rules for Working Personnel in Public Agencies," "Rules for Representatives to the National People's Congress," "Rules for Judges," "Rules for Employment by Examination," "Remuneration Rules," "Examination Rules," "Rules for Bonuses," and "Rules for Retirement," only by constantly adding rules and regulations and managing with a reliance on laws can China's personnel management hope to "comply with existing laws and be certain to investigate violations." In this way personnel management will become democratic, scientific, and systematic.

As we have said before, establishing a public service system with Chinese characteristics requires us not only to refer to and learn from the worthwhile experiences of public service systems throughout the world, from which we would take in the scientific methods of the public service agencies of other nations, it would also link China's actual situation and needs, adapt to the national situation which is in the initial stage of socialism, and set up a Chinese system of public service. This would enhance the party's management of personnel matters, develop moral, talented, and qualified government workers and managers, and improve government work efficiency and the stability of national administration management.

12586

Article Discusses Underlying Social, Ideological Origins of Bureaucratism

40050375 Harbin FENDOU [STRUGGLE] in Chinese
No 7, 1 Jul 88 p 14

[Article by Ming Haicai 2494 3189 2088: "The Underlying Causes of Bureaucratism"]

[Text] China is a socialist country. Basically speaking, a bureaucratic machinery does not exist, yet bureaucratism remains a serious problem in the political life of our party and government. The roots of this problem can be found in history as well as in the present and in ideology as well as in the defects of the system. On this subject Comrade Deng Xiaoping wrote a brilliant paper in which he pointed out that bureaucratism is closely related to China's long-time practice of managing the country by means of centralized planning and to the practice of highly concentrating power in the central authorities in the management of economic, political, cultural, and social affairs. This may be said to be the root of our current special kind of bureaucratism. Another underlying reason is that for a very long time, organizations of the party and government and organs of leadership in enterprises and industries of all kinds lacked a strict system of personnel responsibility system that ran from top to bottom, regulations for administration, and clear and precise definitions of the duties and limits of power of each organization or even of each individual.

Our past antibureaucratic struggles emphasized strengthening ideological and political education and improving the quality of the cadres in order to promote a change of work style. This is indeed important but the problem remains unresolved institutionally. We had ignored the decisive role a good system plays in improving ideological awareness, changing the work style, and enforcing discipline.

The appearance of bureaucratism is also directly related to the training of communist party members. The document, "Regulations Regarding Political Life in the Party," points out that "the victory of the revolutionary struggle and the ruling position of the Party have created conceitedness in some comrades. As a result the system of democratic centralism in the party and the government is not sound and because of the influence of feudal and bourgeois ideas, the party was divorced from reality and the masses, and unhealthy tendencies such as subjectivism, bureaucratism, autocracy, and notions of special privileges have surfaced within the party."

This document not only exposed the serious nature of bureaucratism in the political life of the party, it also analyzed the ideological causes. We should acknowledge the residual effects of feudalism and the persisting influence of capitalist ideas. These ideas are fertile soils which bureaucratism needs.

Looking at the issue from a historical point of view, the long period of feudalism with its a high concentration of power, self sufficient form of production, and the fact

that China had a feudal society for so long have exerted a greater or lesser influence on contemporary political life in terms of the system, concepts, and habits. In particular, the feudal patriarchal clan system based on blood relationships and the superior-adjunctive relationship between the emperor and ministers left its stamp on our political life and is very difficult to eliminate in a short time.

Chinese society has a feudal history of several thousands of years. There is no way to sweep all remnants of feudalism out of the door at once. The existence of the concepts of patriarchal clans, different classes, and the phenomenon of inequality in the relationships between higher and lower ranks and between the staff and the masses caused some people to the extent that they believe in having special privileges and has encouraged the growth, development, and spread of bureaucratism.

All types of idealist thinking which originates from subjective desire are also an important ideological factor in the growth of bureaucratism. Subjectivism stresses imagination only and pays no attention to objective reality. It only relies on books and experience and does not observe objective laws. Its unique feature is that it separates the subjective and the objective as well as understanding and practice. Bureaucratism is closely related to subjectivism's mode of thinking. To a certain extent, one can say that subjectivism is one manifestation of bureaucratism. In our efforts to overcome bureaucratism, we must therefore also pay attention to overcoming subjectivism.

We also need to recognize the fact that serious problems exist in the behavior of the party and society. The improper behaviors have made many expressions of bureaucratism "acceptable" to many people and through "cross contamination," bureaucratism is ever becoming more and more serious.

Bureaucratism is an archenemy of the communist party and of our efforts to construct socialism; its damage is extremely severe. It serves as a protective umbrella under which many ugly things can multiply to seriously damage the advantages of socialism and the creation and full development of positive action on the part of the masses. It damages the integrity of the party and the government and saps the vitality that organizations of the party, government, and leadership organizations of enterprises should have.

At present important tasks before us today are to earnestly oppose and overcome bureaucratism, strengthen the building of the party, improve work efficiency, and increasing the vigor and vitality of party, government, and enterprise units. We should accomplish this by beginning through party education, combine structural reforms in economics and politics, establish the necessary systems, and make the struggle to oppose and overcome bureaucratism a long term task to be persistently carried out.

GUANGMING RIBAO Urges More Education Funds

*OW1009042788 Beijing XINHUA in English
1220 GMT 9 Sep 88*

[Text] Beijing, September 9 (XINHUA)—More money is needed urgently in the education sector to renovate old school buildings, buy badly needed school equipment, and boost teachers' pay, today's GUANGMING DAILY wrote.

According to the paper, an extra 75 million sq m of classrooms are needed in primary and middle schools nationwide and 45 million sq m of dilapidated school buildings are posing a threat to the safety of teachers and students.

Only 10 percent of the nation's primary and middle schools have the necessary experimental teaching equipment stipulated by the State Education Commission.

Because of lower wages, 300,000 primary and middle school teachers have left their posts in recent times, and 3.6 million teachers working at schools run by local people are living in very poor conditions.

It is imperative for the Government to work out special policies and measures to raise additional funds for education, said experts who attended a conference on educational funding organized by the paper.

They recommended that the Government encourage collective and private efforts to run schools, levy local educational taxes, issue educational bonds, and establish educational foundations.

In addition, the Government should raise the teachers' wages to a level that exceeds the income of their counterparts in other professions.

Governments at various levels should carry out the Central Government's directive to increase funds going to education in proportion to the increase of the national output value.

Hebei's Measures for Implementing State Education Plan

SK2109113288 Shijiazhuang HEBEI RIBAO in Chinese 3 Sep 88 p 1

[Text] Wang Zuwu, vice governor of the province, delivered a speech at the work conference on the "wide-spreading plan" sponsored by the State Education Commission to describe the province's tentative overall idea and measures for implementing this plan.

In his speech, Wang Zuwu stated that in line with the provincial economic development strategy, Hebei has decided to integrate the plan with the "spark plan," the

"bumper harvest plan," the plan on developing export-oriented economies in the cities of Qinhuangdao, Tangshan, and Cangzhou, the plan on developing areas along the Huanghe, the Huaihe, and the Haihe rivers, and the mountainous development plan. The "wide-spreading plan" consists of the following three-stage projects: The first-stage project is that Hebei is going to have 50 counties and 250 townships serve as demonstration areas in implementing the plan during the Seventh 5-Year Plan period. The second-stage project is that the province will have 100 counties and 1,000 townships serve as demonstration areas in implementing this plan during the Eighth 5-Year Plan period. The third-stage project is for the province to strive to have 80 percent townships reach the level of demonstration areas in this regard.

To implement this plan in a down-to-earth manner, demonstration counties and townships should define their targets in conducting educational reform and developing the economy. Major contents of their targets are as follows: County and township people's governments should realistically put education into the overall plan of economic development; make overall arrangements among agriculture, science, and education and among general education, vocational education, and adult education; and continuously increase the investment in developing intellectual resources. Efforts should be made to enforce 9-year compulsory education to completely eliminate illiteracy among young and middle-aged people. Efforts should be made to establish training centers of science, technology, and education at township and village levels and to successfully run a comprehensive secondary vocational or technical school and an adult school at the county level to serve as local centers for training talented personnel and rendering technical services. Efforts should be made to straighten out educational ideology among middle and primary schools and to have them actively assume the task of popularizing science. Efforts should be made to score large-scale economic development and to show a larger increase in the total output value of industry and agriculture and in per capita income.

Prefectures (cities), counties, and townships should establish their leading group under the leadership of their government, in which the education commission should play a leading role and relevant departments should take part. Meanwhile, in line with the provincial plan of economic development and the provincial administrative divisions, our province will be divided into five key regions for the implementation of this plan—the Qin-Tang-Cang region for developing the export-oriented economy, the region around the municipalities of Beijing and Tianjin, the northern Heilongjiang region, the southern Heilongjiang region, and the northern mountainous

region. Meanwhile, efforts should be made to organize relevant universities, colleges, junior colleges, and secondary specialized schools to be responsible for conducting guidance over these regions. Governments at all levels should make overall arrangements for education in agriculture, science, and education; concentrate on successfully running senior or junior vocational or technical middle schools and training centers of demonstration counties and townships; and bring into play the multiple roles of these schools to gradually establish a network for training talented personnel and popularizing technology among units at the levels of province, prefecture (city), county, township, and village. We should open various channels to deal with the problems of funds, teachers, teaching materials, and scientific and technological materials needed by implementing this plan. We should work to further reform the distribution system of student enrollment from rural areas by universities, colleges, junior colleges, and secondary specialized schools and to formulate coordinated policies to support the implementation of this plan.

Heilongjiang Democratic National Construction Association Meeting Ends

SK2109003688 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 20 Sep 88

[Text] The 4-day third congress of the Heilongjiang Provincial Committee of the China Democratic National Construction Association ended in Harbin today.

The congress elected the new provincial committee of the China Democratic National Construction Association. Guo Shouchang was elected chairman and Zhu Yuancheng, (?Zhang Renlun), (?Liu Tieliang), and (?Guo Longting) were elected vice chairmen.

The congress also elected 17 members of the Standing Committee. Of the newly elected 41 members, more than half are new comrades in their prime.

This congress also adopted a resolution on suggestions to invigorate Heilongjiang. The resolution calls on the members of the China Democratic National Construction Association to fully display their superiority of having close ties with industrial, commercial, and economic circles, to conduct activities displaying one's proficiency in invigorating enterprises and Heilongjiang, and to actively participate in the investigation and study of relevant policy decisions, particularly in the offering of consulting services for financially-troubled and low-profit enterprises to help them improve conditions and revitalize.

NATIONAL AFFAIRS, POLICY

Production Figures Reported, Third Quarter Forecast

HK2109122188 Beijing CEI Database
in English 21 Sep 88

[Text] Beijing (CEI)—China did quite well in its industry, transportation, finance and trade in the first three quarters of this year though it faces difficulties and disturbing factors in these sectors, according to experts of the State Commission of Science and Technology of China and the China Scientific and Technological Development Promotion Center.

The growth rate of industrial production in the third quarter, although below that of the first two quarters, is expected to register a 16.3 percent increase over the industrial production of the third quarter of last year, 0.2 percentage points less than the growth rate of that quarter last year.

The growth rate of major raw materials production is higher than that of last year. The output of steel, steel products and cement in the first three quarters of the year is 11.1 percent, 10.3 percent and 11.5 percent higher than that in the same period of last year.

Electricity generation will be higher than that of last year, but its primary energy production will slow down. Electricity generation in the first three quarters of the year will increase by 12.7 percent as against 10.7 percent in the same period and the whole of last year, which is the record growth rate in recent years.

Primary energy is expected to register an increase of 2.6 percent over that of the same period of last year but remain lower than the 3.6 percent growth rate of the corresponding period last year and the 3.2 percent growth rate of the whole year.

Rail transport saw a remarkable increase. The total volume is estimated to reach 1.098 billion tons in the first three quarters, a 7.4 percent increase over the same period of last year.

The increase in state revenue in the first nine months is some 11 percentage points higher than the growth rate in the corresponding period of last year. State expenditure also increased in the third quarter.

The growth of fixed assets investment is slowing down, with the growth rate in the third quarter estimated at 16.6 percent, 5.9 percentage points higher than that of the same period of 1987.

According to experts' analysis, though there were increases in raw material production, power generation, state revenue and expenditure and foreign trade, the overall situation does not allow optimism. There are still many unstable factors in economic development such as

overgrowth in the processing industrial production and consumer demands and the soaring prices.

Economic Reform Blueprint for 1988-1995

40060451 Beijing ZHONGGUO SHEHUI KEXUE
[SOCIAL SCIENCES IN CHINA] in Chinese
No 4, Jul 88 pp 15-36

[Article by "Mid-Term Economic Reform Plan" Group of the Chinese Academy of Social Sciences: "Chinese Reform Seeks Progress Amid Stability"]

[Text] This article argues that the basic guiding principle behind mid-term economic structural reform should be to combine economic stabilization with reform intensification.

Based on that principle, we should differentiate between the first 3 years and the next 5 years. As there are unstable elements in economic life today, we must work hard in the next 3 years to deal with the economic environment and remove such elements, focusing on bringing inflation under control. Extensive price reforms and other moves that may cause social disruptions should not be introduced in this period. Be that as it may, we will still have a rich variety of reform in these 3 years. 1) Improve macroeconomic mechanisms, including the separation and transfer of government functions, organizational streamlining, and the implementation of dual budgeting. To cover the deficit, we should issue bonds instead of borrowing from banks. The independent status and functions of the central bank should be strengthened. Special banks should be commercialized. All this should proceed at a faster pace. 2) Enterprise reform should concentrate on furthering the contracting system. The stage should be set for the transition from the contracting system to the share-holding system. Profits and taxes should be separated. Enterprises should be required to repay loans and distribute profits after paying taxes. New mechanisms should be formed to select and evaluate entrepreneurs. National assets management organizations should be set up based on the principle of separating the government's macroeconomic regulatory function from its function as an asset owner. A corresponding national assets management system should be established to take stock of and evaluate state assets. 3) Turning to market reform, while there should be no bold moves in price reform, there is a need for limited adjustments and decontrol. A vigorous effort should be made to mature the market and set up market rules. A capital goods market should be created without delay and preparations should be made for a futures market for agricultural products. An agricultural products special fund should be set up to exploit the state-run commercial sector as a reservoir. The development of funds markets, including a short-term funds market, a stock market, and a bond market, should be speeded up. The labor market should be established step by step. Using experience gained from pilot projects, we should accelerate the commercialization of housing and rent

reform as well. 4) Concerning agricultural reform, we should concentrate on pushing ahead with the centralized operation of rural land. While we encourage the leasing and transfer of land, we must also develop cooperative farms, joint-stock farms, and family farms. The rural circulation system and financial system should be reformed in order to promote the development of a rural commodity economy. The subordination of township enterprises to township government authorities should be changed. They should be given decision-making power in management and operations and adopt a share-holding system.

The climate in the next 5 years after 1991 should improve, and unstable economic factors should have been eliminated. Thus bolder moves should be taken one after another in this period so that the new system will gradually play a dominant role in the economy.

0.1 Chinese economic structural reform, now in its ninth year, has broken free from the traditional rigid pattern, breathed life into the national economy, and accumulated considerable experience for development and reform. Its infancy over, reform has now entered a critical period during which the new system will replace the old. Thus we can and must draw up promptly a reform program which contains relatively precise objectives and content and which is divided into stages, and integrate the goals of this reform program into the overall objectives. Our premise is that as far as the relationship between reform and development is concerned, we should concentrate on the organic integration between economic stabilization and reform intensification. That is, we should "coordinate and combine the two and advance amid stability." As for reform intensification, we should coordinate and combine the reform of the microeconomic base with that of the operating mechanisms. The two should proceed in tandem.

1. The Guiding Principle: "Combine the Two, Advance Amid Stability"

1.1 In planning the next move in reform, we should proceed from reality and assess the situation as a whole. In analyzing the situation, we must not overemphasize certain existing contradictions and difficulties, even blaming reform for some of the problems and demanding that reform be postponed or shelved. On the other hand, we cannot overlook the problems that have appeared amid the progress, ignore the objective environment, or ask for the impossible—accomplishing the goals of reform in a few short years.

As pointed out by the leaders on the Central Committee and State Council, our enormous achievements have been accompanied by unstable elements, which may have been mitigated but not completely eliminated. The most conspicuous problem today is soaring prices and a drop in the actual living standards of some urban residents. In our opinion, this problem is not entirely caused by the old system making trouble for us or the inevitable

frictions in the process of reform. Rather, it has much to do with the implementation of the development strategy or certain policy. What we must pay full attention to now is this—agricultural production is losing steam. Production has been unsteady. Grain, cotton, and pig output have fallen below historical peak levels several years in a row, which is out of step with the growth trends in demand and population. Industrial production has been excessively fast, with the gross output value doubling the projected figure. This cannot be considered normal. Nor can we regard the product mix as balanced. Profitability in industry is low. Economic efficiency is poor. Production costs and circulation fees have been rising. The number of money-losing enterprises is going up, as is the amount of losses. The growth in government revenues trails the increase in gross output value. In the final analysis, the tendency to seek instant gratification is still very much alive in economic work. Inflation and demand explosion have been fueling each other. Price instability reflects economic instability. All in all, the economic climate remains very strained.

Practice over the past several years tells us that economic development and economic reform must be coordinated and complementary; the repercussions of economic development can often lead to setbacks in economic reform. Once a serious imbalance occurs between total supply and total demand or in its structure, our effort to optimize resource allocation through reform and market utilization will be undermined or doomed. Inflationary pressures, moreover, often force us to resort to administrative fiat to control economic life, thereby stalling or reversing reform. The Central Committee is entirely right in its policy to stabilize the economy and intensify reform. In proposing that we "coordinate the two and advance amid stability," we too seek to ensure reform through economic stabilization measures and stabilize the economy by furthering reform.

1.2 Further face up to the present inflation problem. That inflation has been with us since 1984 is an undeniable objective fact. At the heart of economic stabilization is price stabilization. Basic price stability is the hallmark of a stable economy. Under no circumstances can we give up the goal of price stability. Price stabilization is not the same as a price freeze. It does not mean that the price of a commodity relative to those of other commodities will not change, nor that the overall price level will stay the same. Even with stringent anti-inflationary measures, price reform and price structural adjustment will cause the prices of certain commodities to go up. Nevertheless, post-adjustment prices can still remain relatively stable at a new higher level. Price adjustment by the government last year accounted for a mere 0.9 percent rise in the overall retail price index. Yet the retail price index shot up 7.3 percent again after rising significantly in the previous 2 years. This situation cannot be explained by structural reasons or the supply-demand relations of some products alone. The fact is that while the growth of the money supply and total bank lending declined last year compared to the year before, they

remained much higher than the actual growth rate of the gross national product for the corresponding period. Undeniably, inflation was behind the steady price increases in the past few years. However, the total demand explosion, which is what has been feeding inflation, has a new and highly complex background.

First, reform and the delegation of authority have become the new driving force behind inflation. Under the traditional centralized system, the source of investment explosion was mainly an investment fever resulting from soft budget restraints, which manifested itself primarily as ambitious state targets and was determined by administrative intervention. This kind of investment excess could be removed gradually if we only turn off the "faucet," that is, adopt a belt-tightening budget. Over the past few years, as the "eating-from-separate-stoves" budget system was adopted and state enterprises were given more decision-making power in operations, more and more extra-budget funds got into the hands of localities, departments, and enterprises. Moreover, as investment decision-making was decentralized, the scale of extra-budgetary investment expanded steadily. This is the primary source of over-investment, something beyond the control of traditional methods. Under the old system, furthermore, wage funds were determined by the state through planning and the initiative was in the hands of the state. For years accumulation was accomplished at the expense of consumption, so there was no consumption explosion. Although the state continued to control wage funds and wage standards over the past few years, enterprises have been able to retain profits which could then be used at their discretion. Administrative and institutional units too have come to possess variously named "small tills" of their own. As a result, bonuses and subsidies of all forms and shapes have shot up, as has the amount of money and goods issued recklessly. Institutional purchasing power has gone out of control. Traditional methods simply cannot handle this situation.

Second, the structural imbalance and the explosion of total volume interact with and fuel each other. To a large extent, the current structural imbalance is a kind of institutional phenomenon and a very serious one at that. As new major investors, local authorities and enterprises are mainly concerned with pursuing their own interests. However, given the distorted market and economic parameters today, what is most attractive to investors is projects in such industries as domestic electric appliance, light, and textile industries which have a "short production cycle and low start-up costs, and pay off quickly," while "bottleneck" industries like energy, transportation, and raw materials have no appeal because of the low planned prices of their products. If we put together the two, we have a situation in which over-investment is compounded by an imbalance in the investment mix, resulting in an imbalance in industry mix and product mix. Another tendency is for local governments to seek comprehensiveness in "regional welfare and regional production." In their pursuit of a

"full lineup" of industries, they tend to compete with one another to see which grows faster and on a larger scale in a "keep-up-with-the-Joneses" fashion. Consequently, not only do they expand investment endlessly, but the industry mix of one region becomes increasingly similar to that of another, thereby nullifying the benefits of specialization and economies of scale. Meanwhile, the central government has been forced to develop the "bottleneck" industries on a larger scale and at an accelerated pace and use both appropriations and credit to support regions suffering from a lack of resources in the development of resource bases, thus inducing local authorities and enterprises to expand processing industries even further and impose additional resource blockades. The result is a vicious circle. Structural imbalance fuels the explosion in total volume which, in turn, exacerbates the structural imbalance.

Third, while traditional regulatory methods have weakened, new ones are not yet in place. Retrenchment under the old system was usually effected by the central government through administrative tools. It might try to narrow the disparity between total supply and demand and fix the structural imbalance by ordering factories to close, stop production, merge, or switch to another line of business; thereby sorting out the economic relations if only temporarily. Nowadays, the central government cannot continue to use traditional methods and expect the desired results. The reason is that the scope of command planning has been reduced, revenues account for a declining share of the national income, and limited room is available for government readjustment. In particular, there is only so much investment and materials under direct state control. In any case, they are earmarked for the production of goods in short supply and heavy demand. Thus there is virtually no room for further cuts. Bank loans play an increasingly important part in the new regulatory system, but a string of problems remain to be addressed there. When a deficit occurs, the enterprise continues to resort to borrowing from banks. In the commercialization of special banks, no mechanism has been created to effectively coordinate the profit motive with lending controls. The practice of repaying loans before paying taxes has greatly reduced the borrowing and lending responsibilities and risks of banks and enterprises. Rigid interest rates and the soft restraint of interest also undermine the effectiveness of interest rates as a regulator of fund supply and demand. To use a credit quota as a method of direct control under these circumstances often squeezes liquid funds even as it reduces fixed assets investment and scrimps the sectors producing goods in short supply as well as constraining sectors that produce oversupplied goods. In the end, there is often no alternative but to raise the quota again.

1.3 Stabilize the economy and create a favorable climate for reform intensification. Stable economic growth is basic to further reform. Economic instability marked by sharp upswings and downturns—overexpansion in good times and putting on the brakes in bad times—not only

militates against economic development, but also worsens the structure and squeezes profits. The result is that the set of coordinated reforms cannot be unveiled in an orderly way one after another and reform cannot push ahead.

We have yet to find a success story in modern economic history of a country which achieved economic take-off rapidly amid sharp cyclical fluctuations and reformed its economy substantively at the same time. The Federal Republic of Germany and Japan, two badly ravaged economies at the end of World War II, were able to take off soon afterwards mainly because, among other things, they adhered to an effective policy of long-term stable development throughout. Yugoslavia and Hungary achieved breakthroughs in their reform in the mid-1960's and in 1968, respectively, also because of their economic stabilization policies. Since the late 1960's, reform in Yugoslavia and Hungary has been limping along with difficulty and all sorts of problems have appeared. To a large extent, this is the result of their failure to base reform on long-term economic stabilization. China's situation is different from that in Yugoslavia or Hungary. However, after experiencing repeated bouts of "boom-and-bust" and trying to take off from shaky grounds, we know that an excess of economic fluctuations not only does nothing to help development, but also hurts reform. In the future, we cannot hope to intensify reform successfully in a constantly strained and unstable environment.

To stabilize the economy and create a favorable environment, we must begin by stabilizing prices, tightening the money supply, and controlling inflation. To pull this off, we must stabilize the rate of economic growth, keep a lid on the total volume of investment demand and consumption demand, and get rid of unconventional cyclical movements. In the long term, we should aim for relatively fast growth to ensure a steady expansion in economic strength, rising employment, and gradual improvement in living standards. In particular, our industries must grow faster than their counterparts in developed nations in order to bring about industrialization and industrial modernization. However, what really is a proper growth rate? The faster, the better? Our understanding does not seem to square with our actions here. During the last 10 years, the GNP of industrialized nations grew between 3 and 5 percent annually on the average. The post-take-off growth rate of Asia's four "little dragons" did not exceed 10 percent on the whole. China's average, on the other hand, already hovered around 10 percent, clearly not a low rate. Yet China's expansion was not a steady one. Take Japan, for instance. Its highest annual growth rate was 5 percent; its lowest, 2 percent, for a difference of 3 percent. China's highest growth rate was close to 20 percent; its lowest, less than 5 percent, for a difference of over 10 percent. When the economy fluctuates this sharply, we pay a price in wasted resources and lost profitability whether in a fast-or-slow-growth period. In effect, what we end up with is a low-efficiency growth rate. Herein lies the crux of these problems—economic growth rate out of sync with the

growth rate of enterprise profits and revenues, steady price increases, a constantly strained economic environment. The net result of all this is that some urban residents for the first time experienced a decline in actual living standards last year. In this kind of strained environment, it is impossible to introduce a bold coordinated reform program consisting of price reform, among other things. Nor will the program work even if it is implemented. What is more, since industrial expansion raced ahead just as agricultural development began losing momentum in 1984, it cannot go on forever because it will be constrained by a sluggish agricultural sector. This may set the stage for another round of imbalance in the proportionate relations between industry and agriculture.

Reform intensification requires a long-term stable economic climate. To create such a climate, we must take a two-pronged approach. On the one hand, we must raise microeconomic efficiency by perfecting the contracting system and improve macroeconomic efficiency by adjusting the industrial mix and product mix. The result should be an effective increase in supply. On the other hand, we have to deal with the demand side of the equation. The key is tightening the money supply. We must improve our ability to manage supply, demand, industry mix, and product mix by formulating and enforcing a fiscal and monetary policy, an industrial policy, an income distribution policy, and a consumption policy. We should improve the standard of control by differentiating between categories (investment demand or consumption demand, group consumption or personal consumption,) levels (government, enterprise, or individual), and points (single project, a single region, or a local market.) Currently the GNP is projected to grow by about 7.5 percent annually in the next 5 years. That is appropriate.

1.4 Intensify reform to promote stable national economic growth. If reform is to meet the requirements of stable economic growth, we must assess the times and size up the situation and choose among reform measures. Given the current unstable economic situation, we would be ill-advised to introduce reforms that are costly and too burdensome on the central coffers, that would do nothing to help dampen demand, or that can only spur quantitative growth without increasing profitability. Major price reform, for instance, should not be introduced at this point in time. Nor should we move ahead too rapidly with the development of a funds or stock market. Also to be avoided is anything in enterprise reform that may induce or reinforce myopic behavior or lead to a consumption explosion. In the short run, what is permissible is reform that costs no or little money, that will not push up demand, that will not lead to market shortages, and that is conducive to improving profitability and the structure and increasing effective supply.

2. Underlying Philosophy of Reform Intensification

2.1 Overall goals of reform and the strategy of phasing it in in stages. Stabilization and reform are organically and

dialectically related. We can neither shelve reform and devote ourselves to stabilization nor put aside stabilization to tackle reform. In the future we must stabilize the economy, controlling inflation in particular, and bring about balanced and effective economic growth, on the one hand, and further reform and push for institutional changes, on the other.

Considering the fact that the situation unfolds in stages, the substance and pace of reform should not be uniform throughout the next 8 years. In the next 3 years, we must adopt a strategy of "advancing amid stability, with emphasis on stabilization" and generally limit ourselves to those reforms that help stabilize the economy. This is because we must first spend time adjusting and correcting the guiding principle for macroeconomic policy and then remove the causes of economic instability that have occurred in the earlier phase of reform and development. We have to accomplish two basic assignments in the next 3 years. First, intensify reform selectively and, second, create a favorable climate for bold reform in the coming 5 years. In the latter period, we must still adhere to the principle of long-term stabilization, shifting our focus, however, from "stabilization" to "progress." Under the general guiding principle of "progress amid stability," we may move faster and more boldly as reformers. These 5 years should be an era of great progress in Chinese economic reform. We can call it a period of "great institutional change." Of course, this can come about only if we succeed in creating a relaxed economic climate in the first 3 years where there is an essential balance between total supply and demand, where the state treasury is not so short of funds, where market shortages are not so acute, and where inflation is largely brought under control.

2.2 The two themes of reform. The long-term objectives of Chinese economic structural reform are to establish a system favorable to the development of a socialist commodity economy, enable enterprises to become independent commodity producers and operators, and form a unified market system. The new system would regulate national economic activities mainly through economic instruments, a three-in-one system where the "state regulates the market and the market guides enterprise." But how can we achieve these long-term objectives? The theory and practice of reform over the past few years has raised three basic issues: 1) Should we take the road of interest stimulation or that of institutional change? 2) Should we strengthen administrative power-sharing or economic power-sharing? 3) Should we sidestep price reform and the formation of a competitive market and concentrate on enterprise reform exclusively, or vice versa? Or should we combine the two—enterprise reform, on the one hand, and price reform and market formation, on the other? This is how we see it.

First, about interest stimulation and institutional change. At the heart of structural reform is an effort to fundamentally change the traditional production and distribution system which is based on a traditional

theory and incompatible with the demand of the initial stage of socialism and establish a new production and distribution system that satisfies the requirements of the commodity economy. This was exactly the road the Chinese countryside took when it first embarked on reform, instead of simply adjusting the interest structure. Although the shift from the traditional people's commune system to the rural family output-related system of contracted responsibility also involves a change in interest structure, it was not a case of reforming distribution through distribution, but one of reforming distribution by changing the production system and mechanisms. The peasant was steered from the "eat-from-the-big-rice-pot" natural economy toward a commodity economy where an individual has to assume responsibility for his own profits and losses and where changes in interest distribution are effected through changes in the economic system.

In contrast to rural reform, the earlier phase of urban reform basically followed the road of interest stimulation and not institutional change. For instance, there was much fanfare surrounding tax cuts and profit retention, but the operational mechanisms of enterprises remain essentially unchanged. Enterprises still are not independent commodity producers and operators that possess operational decision-making authority and assume responsibility for their own profits and losses. Enterprises now have more money at their disposal when it comes to wage distribution, yet the mechanism of wage formation has not changed. In general, therefore, the emphasis has been on interest stimulation, while interest restraint has not proven too effective. This is exactly a sign that mechanisms have not been altered. If a peasant's income and economic interests after reform are mainly determined by how well he manages or mismanages his production and operations, not on his bargaining in whatever form with his production team, then the profits of a state enterprise in the city were made conditional from the start on the enterprise's "bargaining" with the government through the distribution process. The lack of self-restraining mechanisms coupled with sheer profit motivation have induced the enterprise to behave myopically. According to studies, many enterprises set aside a mere 20 percent of their retained profits for production development, giving out the other 80 percent to workers as bonuses and welfare. This is the cause of a loss of control on consumption funds, itself the consequence of the absence of restraining mechanisms. Thus we believe the first theme of reform should be shifting the emphasis from interest stimulation to mechanism change.

Second, administrative power-sharing versus economic power-sharing. From the perspective of policy-making, the earlier phase of reform in China can be summed up as "two-directional power-sharing": market-sharing with enterprises and administrative power-sharing with localities. This kind of power-sharing has been instrumental in breaking down the traditional centralized system. But when we look at what it takes to further reform, there are

many problems. Particularly troublesome is the fact that dual-directional power sharing is biased in favor of administrative power-sharing, with local authorities getting too much power. As a result, the power of the authorities to interfere in enterprises has not diminished. It is simply that such power has now been transferred from the central government to local authorities. Thus this kind of power-sharing runs counter to the goal of making enterprises assume responsibility for their own profits and losses, develop on their own, and orient themselves to the market. It is reported that by the end of 1987, central planners directly managed only 50 percent of the industrial products they used to, while the amount of materials under state allocation had dropped to 10 percent of the original volume. However, less than 40 percent of the power over human, financial, and material resources as well as decision-making power over production, supply, and marketing were genuinely delegated to enterprises. About 60 percent of the authority was siphoned off by local governments.

In a huge country like China, it would not work for local authorities to be powerless in macroeconomic coordination. But if they have too much power to intervene in enterprise matters, it would be just as bad as the central government interfering directly in enterprises. Moreover, enterprises are more directly dependent on local governments than on the central government. If local governments are excessively powerful when it comes to intervening in enterprises, then it would be even harder for enterprises to grow into independent commodity producers and operators. Besides, if local authorities in China involve themselves in macroeconomic regulation too much, we may end up with Yugoslavia's overly strong regional fragmentation and localism, which will hamper the formation and development of a national unified and coordinated market system. Thus, the second theme of reform in the next phase of reform is to put an end to "two-directional power-sharing" and gradually weaken local-administrative power-sharing and strengthen enterprise-market power-sharing.

Third, one-directional advance versus two-line combination. An extensive discussion on reform strategy has been going on in China's theoretical community in recent years. Broadly speaking, there are two schools of thought. One holds that reform should center on enterprise ownership. Comrades in this camp believe that given the immediate economic climate characterized by a strained market where inflation cannot be cured, we can only sidestep price reform and concentrate our energies on speeding up ownership reform whose core is a change in property rights system. The other school argues that "market price reform holds the key to reform." Comrades of this school of thought contend that every step of reform an enterprise takes, such as changes in the relations of the ownership system including contracting, leasing, selling, and share-holding, as well as every step it takes toward responsibility for its own profits and losses, is contingent on the development of the market and, in particular, a relatively sound price system; the new enterprise system

cannot be born amid a distorted price structure. Hence, in our next step, they argue, we should concentrate on pushing for market reforms centered on prices. While apparently logical, both schools overemphasize a single-dimensional approach. In point of fact, the two approaches interact with and are related to each other; the question of which comes first, which follows does not arise at all. Changes in enterprise property rights require that they be accompanied by an external condition—price reform and the formation of a competitive market. Price rationalization and decontrol, in turn, require corresponding changes in enterprise behavior and mechanisms. Certainly, the central link in overall economic structural reform is revitalizing and transforming enterprises into independent commodity producers and operators. It is around this that other reform measures revolve. In our opinion, the basic philosophy in reform intensification is that we must tackle two themes at the same time: adhering to both enterprise ownership reform and market price reform. Or, as they say, we must organically and dialectically combine "the reform of ownership relations" and "the reform of operating mechanisms" and carry them out in a coordinated way. Needless to say, as circumstances change over time, so may we vary our emphasis. For instance, unstable elements in the national economy will remain serious in the next 3 years, so we have no choice but to emphasize the reform of enterprise mechanisms. In the last 5 years, when unstable elements should have largely disappeared from the national economy, we can move ahead rapidly with price and market reforms even as we continue to reform enterprise mechanisms.

The basic philosophy above rests on two institutional cornerstones: the enterprise and the market. The objective is to boost the maturing and growth of the market and steer the enterprise toward financial responsibility. This is the "reform philosophy combining the two themes."

2.3 In accordance with the goal set by the 13th NPC that "the state regulates the market and the market guides enterprise," the design and implementation of reform should be a three-in-one affair. That is, apart from the two players, "the market" and "enterprise," we should also consider reforming the behavioral mechanisms of the state or "government" as owner of state enterprises and as regulator and manager of the macroeconomy. In other words, we should also consider reorganizing the functions of government. However, macroeconomic regulatory mechanisms should be changed only to the extent necessitated by the two main themes of enterprise reform and market reform. When we say "the state regulates the market," we do not mean that the government simulates the market or that we artificially create a market. On the contrary, we mean that the government should make decisions in accordance with the law of value and operate in accordance with the rules of the market. In general, the state regulates enterprise not by issuing direct orders (with the exception of a tiny minority of government enterprises which monopolize the industry concerned or whose products monopolize the

market,) but through its industrial policy or by correcting and adjusting market parameters. For this reason, in designing the reform of the macroeconomic system, we must adhere closely to "enterprise" and "market." Certainly, the reform of some economic variables, such as prices, can proceed simultaneously at the microeconomic and macroeconomic levels. To change an administrative price into a market price is in effect to change a macroeconomic variable in economic regulation into a microeconomic regulation. Nevertheless, the goal of such a reform is to create a market and develop a set of socialist market economic operating mechanisms, including the responsibility of an enterprise for its own profits and losses. In this sense, changes in macroeconomic regulatory mechanisms must be subordinate to and dependent on the process of reforming the enterprise and the market.

2.4 Coordinating and unifying near-term reform, mid-term reform, and long-term reform. After defining the long-term objectives of reform and the main themes of near- and mid-term reform, we must also consider how to coordinate near- and mid-term reform with the long-term objectives. This requires that we follow two basic principles. First, near-term (next 3 years) reform must not impede the progress of mid-term (the subsequent 5 years) reform; what we do in the near term must not conflict with mid-term goals. Instead, near-term reform should lay the foundation and pave the way for mid-term reform. Second, mid-term reform itself must not conflict with long-term objectives. Therefore, the reform process, from the near-term through mid-term to the long-term, should be a gradual process that develops in stages over time and would bring us closer and closer to the long-term goals.

Some comrades worry that the enterprise contracting system that got under way recently may assimilate elements in the old system and complicate reform in the medium and long term. This is because the contracting system as practiced today has two major flaws. For one thing, it may reinforce administrative mechanisms instead of market mechanisms. So-called "command contracting," "internally determined contracting," and "relationship contracting" all fall outside the realm of the market. At a time when market competitive mechanisms are far from mature, it is extremely difficult to introduce competitive mechanisms into the contracting system and strengthen them. For another, it does little to help steer the enterprise toward financial responsibility, self-management, and self-development. Constant "bargaining" between the enterprise and government administrative officials is bound to induce both sides to behave in a short-sighted way and to exacerbate demand explosion. On the other hand, we must see that compared to the old enterprise system, the contracting system has departed to a considerable extent from the old practice of merging enterprise with government, thus facilitating ownership-management separation. To that extent, the contracting system has increased the enterprise's independence and vitality. Moreover, the nationwide implementation of the

contracting system is now a fact. We should think of ways to continuously improve it and make it part and parcel of the mid-term goal of enterprise reform, that is, the gradual adoption of a share-holding system.

The problem of coordinating and unifying short-, mid-, and long-term goals arises in the reform of operating mechanisms as well. For instance, when market shortages occur, instead of hastening to clamp down controls on prices that have been deregulated and reimpose centralized management, we should opt for short-term quantitative regulation. Otherwise, there will be chaos in operating mechanisms.

3. Reform Tasks in the First 3 Years (1988-1990)

3.1 The general premise in reform and development in the next 8 years will always be progress amid stability. But as circumstances change over time, detailed measures in the first three years should also differ from those in the last 5 years.

The economic situation in China last year was good. Compared to the past, the economy was less, not more, strained and improved gradually. Because unstable elements remain in the economy as a whole, however, we should devise only those reform measures for the next 3 years that would help adjust the structure, increase supply, restrain demand, and stabilize commodity prices. We must create a more favorable environment by getting rid of unstable factors. This requires us to proceed from reality in selecting reform measures for the first years, reserving those with possibly significant economic repercussions for the last 5 years.

Unstable factors in economic development have historically been related to the drive for quantitative expansion, the "pursuit of what is bigger and faster." In other words, when we feel optimistic about economic growth, we often tend to overstimulate the economy. To stabilize the economy, therefore, we must strictly hold the line on total volume. 1) Control the growth rate of industrial expansion. Based on the projected annual GNP growth rate of about 7.5 percent, we believe it would be more appropriate to stabilize the average annual increase rate of industrial production at 8 to 10 percent. In the first 2 months of this year, industrial production shot up 18 percent. This is neither normal nor sustainable. Assuming that the figure is not exaggerated, this kind of growth rate will disrupt the economy because of resource restraints and must therefore be strictly controlled. 2) Curb inflation aggressively and bring down to 3 percent the rate of price increase caused by a bloated money supply. Only then will we make room for structural price reform and keep the overall annual price increase rate lower than the interest rate on fixed savings deposits. If we cannot attain even this modest objective, we will not be able to straighten out the distorted prices or reassure a nervous public. They may then withdraw their savings from the banks anytime, disrupting the market. In these circumstances, reform cannot move ahead or intensify.

3) Control the issue of money. The money supply has been expanding at a rate greatly exceeding not only the real economic growth rate but also the sum of the economic growth rate and projected price increase rate. In essence, we are continuing an "easy money" policy, which has caused prices to keep climbing instead of coming down. In the future, we must tighten money supply so that it will not grow faster than the sum of the economic growth rate and the projected price increase rate, maybe around 12 percent. 4) We cannot possibly set a number for each and every economic efficiency indicator. But revenues must increase faster than prices and actual production costs and circulation costs must come down, instead of rising year after year. These are minimum demands.

As we see it, in no way does our stress on controlling the total volume and putting the economic house in order suggest a conservative and wait-and-see attitude toward reform. On the contrary, such an emphasis is prompted by the desire to intensify reform and avoid fits and starts and regressions.

3.2 To stabilize the economy, we must begin by strengthening macroeconomic management. At the same time, we must carry out institutional reform and create the necessary conditions for a stable economy. The major steps are as follows:

1) Fiscal instability is a primary source of economic instability. In the next 3 years, therefore, we must work hard to create conditions to enable the budget to climb out of its "valley." In the past, we adopted reform measures to cut taxes and allow enterprises or localities to retain profits with the result that government revenues now account for a falling share of the national income. We must absolutely not go in for that kind of reform again. To make the budget more informative, we must institute multiple budgeting. Depending on the nature of government revenues and expenditures, we should draw up separate budgets—government outlays budget, capital budget, short-term lending budget, social insurance fund budget, and so on. When a budget dips into the red, the government should no longer borrow from banks but should instead cover the shortfall by issuing bonds. Loans should no longer be entered in a budget as revenues in order to reflect the real budget deficit. Under the traditional system, we practiced centralized budgeting; all revenues and expenditures were under the state. Now we must replace that with budgeting at separate levels, with the central government and local authorities each drawing up their own budgets and being held accountable to the legislative bodies at the corresponding level.

2) A major part of economic stabilization is holding the money supply steady on a scientific level on a long-term basis, almost an impossibility under the traditional fiscal and banking systems. "Applying the brakes in an emergency" through administrative orders achieves some temporary results at best; it will not be long before we

suffer a relapse. The reason is this. Under the old system, when the budget went into the red, the government borrowed from the central bank. When a special bank let its lending get out of control, it turned to the central bank for yet more loans. The only thing the central bank could do was to print money. Thus it is imperative that we reform the traditional system of issuing money. In particular, we must put an end to the traditional role of the central bank as the banker and cashier of the Ministry of Finance and make the central bank functionally independent. Toward that end, we must draw up a bank law and currency issue law and put the National People's Congress in charge of determining and supervising the general growth rate of the money supply and the short-term issue amount, thereby reducing the administrative discretionary nature of the issue of money through the restraining mechanisms of the legislative body.

3) Curb institutional purchasing power and reform the public spending system. The current shortage of consumer goods in China has much to do with the overly rapid growth of institutional consumption. Institutional purchasing power nationwide was 55.3 billion yuan last year, equivalent to 30 percent of the total wages—186.6 billion yuan—of all workers in the nation. Reform and development demand that we make controlling institutional purchasing power a long-term policy. To do that, we must think of an institutional solution; it is not enough just to impose a freeze on the purchase of items popular among institutional buyers, such as cars. We must also completely overhaul the public spending system, which bears traces of the supply system.

4) Carefully handle departmental contracting and regional contracting. In recent years, reformers have introduced a number of contracting methods on a departmental or regional scale. For instance, railways and petroleum departments are now going in for tax and profit contracting. Places like Guangdong and Shanghai have successfully introduced revenue base number contracting. More recently, foreign trade regional contracting has come into existence. The philosophy of regional or departmental contracting is one of burden sharing, of linking investments in regional or departmental construction and transformation to regional or departmental income growth, and of integrating the foreign trade development of a region with the improvement of the economic benefits of foreign trade. And it has worked up to a point. Nevertheless, this kind of contracting often reinforces administrative intervention by a sector or region, militates against government-enterprise separation, and impedes the effort to turn enterprises into independent commodity producers and operators. Furthermore, when we allow a department or locality to be a contractor, we often end up boosting departmentalism or regionalism, adding fuel to the fire of over-investment or over-consumption, and exacerbating the structural imbalance. For these reasons, suitable limits should be placed on this kind of administrative power-sharing and active efforts should be made to create conditions for the transition to economic power-sharing in the future. For

instance, departmental contracting should gradually set the stage for enterprises assuming responsibility for their own profits and losses, while local contracting may gradually give way to a tax sharing system.

5) Introduce reform measures to enhance revenues. For instance, selling off some small state-owned enterprises to individuals or collectives; issuing stocks and bonds to individuals; levying an income tax on high-income earners; commercializing housing, including selling off some old housing stock; requiring users to pay for the use of urban land; and permitting the sale and transfer of urban land. These measures will not worsen market shortages. On the contrary, they can enhance government revenues and help stabilize the economy.

3.3 Push ahead with the reform of enterprise operating mechanisms centered on the perfection of the contracted management responsibility system. Since 1987, the contracting system has made much headway in the cities. It was estimated that about 75 percent of all industrial enterprises and 76 percent of large and medium-sized enterprises had adopted contracting by year end. At a time when prices remained distorted, the contracting system side-stepped price reform and separated enterprise ownership from management to a large extent, using varying contracting base numbers. In the process, it has cut down on random interference in enterprises, ensured revenues for the state, increased the amount of profits retained by the enterprise and wages for the workers, and mobilized enterprise and worker initiative. But what forms should contracting take? In what direction should it develop? If these issues are not resolved satisfactorily, not only will the contracting system fail to yield the above benefits, but it may actually hamper the furthering of reform. Thus we must improve the contracting system in the following ways:

1) Separate profits from taxes. The current tax system lumps together the incomes of the state as an organ of political power and its incomes as an asset owner. Under contracting, the enterprise in effect guarantees the state profits as well as taxes. Taxes are income collected by the government from enterprises through the use of administrative power. As they are different from income derived from the operation of an asset or business, they should not be contracted. It follows that the present tax system should be reformed. We should abolish the income adjustment tax, cut income tax rates, and separate taxes from profits to make taxes a true expression of the distribution relationship between government and enterprise. As a contractor, the enterprise essentially guarantees returns on assets and fixed assets appreciation. Whatever profit that remains should be retained in full by the enterprise. It should also use the after-tax profit to repay loans and adopt a profit distribution system. The problem with tax-profit separation is that it will reduce government revenues. Accordingly, we must put an end to the anomaly of the state bankrolling all business losses of an operational nature suffered by an enterprise. While the state should continue to cover the

losses of an enterprise caused by a policy through the payment of a fixed subsidy, it should set a deadline for giving out subsidies for all operational losses. After the deadline, an enterprise which keeps on losing substantial sums of money will have to go bankrupt or be merged with another enterprise. At the same time, we should set reasonable contracting base numbers. In view of the fact that commodity prices have been rising year after year, the contracting base number should not be a fixed absolute number or a percentage of an absolute number. Instead, we should peg the contracting base number to the commodity price increase rate so that the former would increase in proportion to the rise in prices. In addition, we should set an average asset returns rate and a minimum assets returns rate for each industry. These numbers should serve as coefficients when we calculate contracting base values. This would help advance the standardization of the contracting system and stabilize government revenues.

2) Determine who is the contract issuing party. Right now there is a great deal of diversity regarding the contract issuing party. It may be the department in charge of the enterprise, the economic commission, the department of finance, a combination of several government departments, or an administrative company. Moreover, the state machine is being restructured at present, which may result in the disappearance of certain contract issuers. To make sure we know who the contract issuing party is and also to ease the transition to the share-holding system in the future, we should let the several departments concerned take part in negotiations, with the finance department signing the contract with the enterprise. After the government assets management agency is established, the best approach would be for it or the investment company under it to be the principal contract issuing party and conclude contracts with enterprises on behalf of the state.

3) Devise new entrepreneur selection and evaluation mechanisms. The weakest link in Chinese enterprises is management and most sought after these days are entrepreneurs. Under the contracting system, we should remove entrepreneurs from the evaluation system for state administrative officials and gradually develop an entrepreneur evaluation system and competitive mechanisms. Accordingly we must break with the existing official job description and evaluation criteria. Moves are currently under way to introduce the competitive mechanism into the contracted management responsibility system and select managers or factory directors through the invitation and submission of bids. This is a feasible method from the perspective of getting rid of the traditional personnel selection system. In the long haul, however, the majority of entrepreneurial experts would not emerge from bidding, but from the competition among individuals who try to outdo one another in managing assets and improving internal enterprise management.

4) Overcome myopic enterprise behavior. Currently the contracting period ranges from 3 to 5 years in most cases. Typically the contractor acts like the new official eager to

apply strict measures. Enterprise workers too are impatient to reap tangible benefits. Hence enterprises are constantly tempted to take the short-term view and pursue instant gratification, even adopting a predatory way of doing business, maximizing profits, and boosting consumption funds. Incipient myopia has appeared in many places. At the end of September 1987, for instance, taxes and profits paid by contracting enterprises in Hefei dropped by 53 percent, while profits retained by the enterprises soared 270 percent and total worker wages rose 16.3 percent. In Zhengzhou and Xiangfashi, profits and taxes paid by contracting enterprises fell 9.1 percent and 1.3 percent, respectively, even as substantial increases were recorded in the amount of profit retained and in wages. To overcome the tendency of contractor enterprises to take the short-term view, we must lengthen the contract period and, even more important, weave contracting into the enterprises' mid- and long-term development plan. When a contract is written up, the core of the enterprise's mid- and long-term development plan, such as the direction of product development, scientific research and product development, technological transformation projects, and fixed assets appreciation, should be written into the contract as the goals of contracting. This will reinforce long-term behavior of self-transformation and self-development among enterprises and better mesh the long-term interests of enterprises and workers with their short-term interests.

5) Pave the way for the transition from the contracting system to the share-holding system. Because the contracting system has not fundamentally cured the property rights system in state enterprises of its inherent weaknesses, enterprise reform must continue to move toward a rearrangement of property rights relationships, specifically, toward the share-holding system. The contracting system should prepare for this transition right now. As long as an enterprise meets its economic responsibilities to the original contract issuing party, the latter cannot interfere in inter-enterprise merger, takeover, or reorganization. This would make it easier for one enterprise to contract or take over another enterprise and facilitate the development of joint operations. It would also be conducive to the issue of stocks by a contracting enterprise to raise funds to finance transformation or development.

During the same period, a state assets management agency should be set up along with an appropriate state assets management system. This agency should be authorized to discharge the function of asset ownership independently. Its first task would be to take stock of the assets and reevaluate them so that we know what the real situation is and have something to go by when we introduce a share-holding system.

3.4 Move cautiously and steadily when we carry out price reform. It should be realized that in contrast to the administrative coordination methods of the traditional economic system, the focus of economic structural reform has always been the opening up of the market and the

employment of market mechanisms to allocate resources so that the "state regulates the market and the market guides enterprise." The key to achieving this lies in sorting out prices. When prices are grossly distorted and when dual pricing has confused market signals, market behavior, and market functions, it is impossible for the market to function effectively. Nor is it possible for us to perfect the market system. In order to stabilize the market and curb price increases in the first 3 years, however, there is no alternative but to postpone the unveiling of a great reform plan centered on price reform.

There are two available scenarios regarding the change from dual pricing to unitary pricing. In the first scenario, we apply market prices to the products of enterprises which have newly gone into production and the new products of old enterprises without exception, in the process gradually expanding the scope of market prices and reducing that of allocation and transfer prices. This approach is less disruptive, but the changeover from the old to the new system will be a long, drawn-out tug-of-war. In the second scenario, we follow a coordinated price-tax-fiscal-banking reform plan to bring state prices closer to market prices, decontrol prices, and replace dual pricing with unitary pricing. We think the second approach is better. The problem, though, is that localities, departments, and enterprises all have vital interests to protect these days. If the coordinated price-tax-fiscal-banking reform plan is not allowed to interfere with vested interest, in practice it may end up that units that stand to benefit from price increases demand that the benefits go to them, while units that stand to lose demand that the state give them subsidies, putting additional pressures on the treasury, or that they be allowed to raise the prices of finished products, which would only lead to price spirals. Thus it is not advisable to introduce extensive price reform at a time when the tendency to seek "instant gratification" has not been arrested and is about to rear its head again, when strict mechanisms of controlling the money supply are not yet in place, and when market demand and market supply has not achieved a rough balance. It is just too risky to change dual pricing into unitary pricing when the right conditions are not there.

Yet we cannot replace dual pricing with unitary pricing without going through with the price-tax-fiscal-banking reform. Accordingly we must make preparations energetically and spend 2 or 3 years laying the groundwork by eliminating the unstable factors. Major reforms should be put on hold for the last 5 years.

Right now the public has many complaints about soaring prices. Thus the maintenance of price stability is paramount in reform and development. Yet this should be achieved by controlling the money supply and not through other methods that violate the law of value. We must steadfastly use market mechanisms, apply the law of value to resolve contradictions, and refuse to go back to where we came from.

To prevent commodity prices, particularly those of agricultural by-products, from fluctuating in the near term, we may consider establishing a special fund for agricultural by-products to buy up surplus goods when supply exceeds demand, thus maintaining reserves at a certain level, and sell them off when demand exceeds supply. To reassure producers, we can also set up an agricultural products futures market.

3.5 Foster and develop a market system. Our proposal to go slow on major reform is not a call for a do-nothing policy as far as going market-oriented is concerned. In fact, we should actively nurture and develop a market system. Major measures include the following:

1) Lay down rules for the market. Economic structural reform requires that enterprises be steered into the market and that their production and operations be regulated by the market. This necessitates a comprehensive set of standardized operating rules for the market, including a "market law." Only in an underdeveloped market with no rules for fair competition and exchange will we see all manner of administrative monopolies interfering with normal market activities, where units do not compete on quality or price but by offering sale commissions, where contracts are dishonored willfully, and where loans remain unrepaid after they are due. In this situation, the man-made risks of running a business exceed normal risks. All this testifies to the absolute need to establish market rules and market order. As we see it, an extra effort in this area in the next 3 years would help the market mature and develop in the future.

2) Develop a commodity market. In particular, we must help capital goods make their way into the market. A possible plan works in the following way. Apart from grain, cotton, oil, and other important agricultural products which will remain under contract procurement and staples like rationed grain and edible oils which will continue to be rationed, all other agricultural by-products and industrial consumer goods will be decontrolled and become part of the market to be managed in accordance with market rules. It is not overly risky to do so. Practice proves that provided we truly operate in accordance with the law of value and make the most of market mechanisms and price mechanism in regulating supply-demand relationships, the current shortages of certain commodities will soon disappear and some products now in short supply would also achieve a supply-demand balance under the pressures of market competition. We should completely sever the state's material-stockpiling function and the self-management and financial responsibility of material enterprises. By disseminating the experience of Shijiazhuang and aiming at the total commercialization of the selling and buying of capital goods, we should steer goods and materials enterprises onto market management and hence promote the development of a capital goods market and the reform of the material circulation system. At the same time, we should open up the technical

market completely where the supplier and consumer can engage in free exchange and where "technology and trade can be joined."

3) Develop a funds market. In the next 3 years, the focus should remain on the short-term funds market, but experiments may be made to develop a long-term funds market and non-bank credit organizations, and gradually create a foreign exchange regulating market. Taking advantage of the drive to commercialize special banks and develop credit organizations of all forms and shapes, we should strengthen the competitive mechanism of the fund market and make interest rates a more effective regulator. Because the establishment of a share-holding system in state enterprises will not be a swift one, the main long-term funds market in the next couple of years will be the bond market, and because the buying and selling prices of bonds cannot float freely, the secondary market will essentially be a market for inter-bank borrowing.

4) Develop a real estate market. The push for the commercialization of residential housing and rent reform should be accompanied by pilot projects in the real estate market to be completed within 3 years. Also, we should establish a market for the transfer of enterprise assets on a trial basis.

5) Promote the formation of a labor market. Of all reforms currently under way, labor wage reform is most backward and will not experience fundamental change in the next 3 years. Reform in this area will mainly consist of the formation of certain labor service markets, the introduction of a labor contracting system and hiring system to link wages to productivity gains and increases in the price index, and experiments to gradually expand the circulation of qualified personnel. In our opinion, the formation of a genuine labor market may be the last event to round off the establishment of a complete market system. Nevertheless, much preparatory work, including the establishment of a social security system, should start now.

3.6 Reform of the rural economic system. Rural economic reform is an important component of the overall economic structural reform. Given the vital importance of agricultural production development in stabilizing the entire economy, rural reform should enjoy an appropriate amount of head start to ensure further breakthroughs within the next 3 years.

There are different assessments of the present rural economic situation. Some people are "optimistic," some hold the "cyclical" view, and some have a grim assessment. What is beyond dispute is the fact that on the one hand, the rural economy, including township enterprises, has developed steadily in the last few years and, on the other, the expansion of agricultural production cannot keep pace with growing national economic needs. Agricultural by-products have remained consistently in

short supply and production momentum is clearly lacking. The output of such major commodities as grain, cotton, and pork has not equaled historical records and per capita consumption has been falling. This shows that agricultural economic reform in the last few years has not achieved the kind of breakthrough needed to propel it into a new stage. In fact, there is a potential danger that the dual economy would expand further. To begin with, traditional agriculture has not been reformed substantively and not enough new productive forces have come into being. In particular, land is being operated in an overly fragmented manner and centralized mechanisms are lacking. In the short haul, this deprives us of the benefits of economies of scale. In the long run, it will hamper technological transformation in agriculture and prevent agricultural modernization. Second, under the dual system, the urban-rural interest structure has not been adjusted fundamentally. In particular, the prices of agricultural products and grain have again dropped to the lowest level relative to other products, with a corresponding decline in their comparative profitability. This has drastically cut agricultural inputs. In addition, the state has trimmed agricultural aid, thus worsening agricultural production conditions such as water conservancy and soil quality and further reducing the reproductive capacity. Furthermore, the market has been slow to appear in the countryside. The old system merging government administration with commune management has been abolished, but government-enterprise fusion has not been really resolved. State monopoly on purchase and marketing has been done away with, yet production, circulation, and investment through quasi-command planning still go on. The result is the same. Elements of rural production, including labor, cannot circulate freely or be brought together in a logical mix, and the optimization of the rural economic structure can only proceed haltingly with difficulty. Finally, although township enterprises constitute a new force suddenly coming to the fore and present a magnificent spectacle, there are deep regional imbalances. In most localities, township enterprises have absorbed little surplus labor. In developed areas, their profitability is falling and it becomes increasingly difficult to operate a township enterprise.

In reform intensification in the next 8 years, therefore, the countryside is a base, the conquest of which still requires an all-out assault. As in urban reform, we should combine the goals and basic principles of rural reform with the objectives of development and, zeroing in on the two major areas of microeconomic base and operational mechanisms, gradually commercialize the operating units, introduce the market and indirect controls into the rural economy, promote the rational allocation of rural resources and the stable growth of agricultural by-products, and expedite the modernization of traditional agriculture and the elimination of relapses in the dual economy. Mid-term reform should concentrate on the appropriate centralization of rural land, the basic rationalization of the prices of agricultural by-products, the development of a rural market system, and the achievement of genuine government-enterprise separation at the grassroots rural level.

1) Improve family operation and commercialize the rights to use and operate land. In view of the characteristics of agricultural production and China's special circumstances, family operation will be the basic organizational form in Chinese agriculture for a long time to come. It will be interdependent on and complement a variety of economic forms, the dominant of which is the cooperative economy. In the wake of the implementation of the family output-related system of contracted responsibility, the peasant family became not only the primary producer and consumer, but also the main organizer and rearranger of the elements of production. Nevertheless, it has not developed fully functioning accumulation mechanisms and self-organizing mechanisms. The reason is that the ownership of land, the most basic means of production in agriculture, has been weakened and property relations have become even more murky. On the one hand, the peasant has a strong desire to own land and is used to the equal distribution of small plots of land. On the other hand, since this kind of ownership has not been legally recognized so far, the peasant is worried about a change of policy. The fragmented use of land not only prevents more efficient land use, but also dampens the enthusiasm of the user to improve it and even leads to the indiscriminate appropriation of land, resulting in a sharp decline in cultivated land. The solution is to improve the land system in order to perfect family operation, integrate land and labor more closely, and bring about the centralized operation of land.

Regarding land reform, there are at present several schools of thought, including state ownership and private ownership. Further exploration is needed. In the short and medium term, we should commercialize the rights to use and operate land and put them on the market. We should introduce a variety of operating methods, including leasing. 1) We should recognize through legislation the commercialization of the rights to use and operate land. Part of the land should be distributed among peasant households as grain land. The remainder should become commercial land to be allocated through market mechanisms. 2) In general commercial land should be used and operated by people selected through bidding and leasing. Competition should be applied properly to put land in the hands of those who are good at farming. Peasants should be encouraged and guided to organize cooperative farms, joint-stock farms, and family farms. 3) Establish longer leasing relationships through the contract, laying down the right to operate the land and the obligation to pay land rent. Land rents should vary according to the grade of the land in question. The bulk of the land rent differential should go to the state. 4) Establish a land credit system. The leaser should be allowed to sublease the land or make it over within the lease period. (However, he must guarantee the irreversibility of land concentration.) 5) Strengthen the state land management machinery whose responsibilities are to evaluate land use and operational rights; process leasing; collect land rents, transfer taxes, and value-added taxes on subleasing and transfer; and arbitrate land disputes.

2) Reform the rural circulation system and basically sort out the prices of agricultural by-products.

There is a dualism in the circulation of agricultural by-products at the moment. On the one hand, price control on some products has been lifted. On the other hand, contract procurement coexists with market procurement in the case of certain key products such as grain and edible oils. This mix of decontrol and control has resulted in inequitable price differentials between products that have been deregulated and those that have not and between contract procurement and market procurement. Not only has it worsened, not improved, the maladies in the old system, including panic buying, regional blockades, and compulsory orders, but the sharp price fluctuations also send out confusing signals causing corresponding rises and falls in output, to the detriment of stable agricultural production. The solution is to operate in accordance with the law of value, treat agricultural by-products as genuine commodities, and gradually decontrol the market and prices. The deregulatory experience of a few places (special economic zones and Guangdong Province) with some commodities (peanuts, aquatic products, fruit) shows that deregulating the market and prices works by stabilizing and increasing output and regulating supply and demand. Recently, plans have been in the works in several places to deregulate pork, poultry, eggs, and vegetables; replace hidden subsidies with open subsidies; and reduce the scope of price control to a handful of products like grain, cotton, and oil. It seems that straightening out the prices of agricultural by-products is something we can, and must, do in the next 3 to 5 years.

Specific measures include the following. Acting at the right time and in the right places, we should determine which agricultural by-products are to be deregulated in batches and by stages and the scope of deregulation. (Moving one step ahead of the rest, Guangdong Province has so far deregulated almost all agricultural by-products, something that is expected to have a favorable effect on other areas.) The role of contract procurement in grain circulation should be progressively reduced, even as that of procurement at negotiated prices is widened at the same time. We should start with grain first and then move onto other crops. Similarly we should tackle the more developed areas first before moving onto less developed areas. In the process we should be able to cut down on the volume of products under monopolistic state marketing each year and reduce the subsidies coming from the central coffers, thus laying the groundwork for the microeconomic regulation of contract procurement prices. Learning from the experience of special economic zones including Shenzhen, where financial resources are more ample, we should expand pilot projects in grain price decontrol, in the abolition of the state monopoly on marketing, and in the payment of subsidies. (Based on a per capita consumption of 25 jin among urban residents, a subsidy of about 8 yuan per worker is enough.) We must insist that deregulated products be regulated by the market and that

we not revert to the old system as soon as problems occur. However, we must have an adequate amount of reserves on hand and use them properly so that both producers and consumers can adapt themselves to price movements psychologically. Gradually state-run commercial and food departments must be commercialized, strictly separating the policies and functions of contract procurement and regulation by reserves from the commodity policies and functions of free procurement and marketing. Ultimately, monopolistic state procurement agencies should be abolished.

3) Develop private economic organizations and promote the development of a market system.

As rural reform intensifies, we must gradually develop a variety of private cooperative economic organizations by building on family operation, raise the extent of market organization in the countryside, and help peasant families make the transition from small commodity producers to commodity producers. The goal is to integrate family operation with the market and expedite the maturing and perfection of the rural market system. The rural market system should be linked up with the city and be appropriate to it. It should include markets for agricultural and industrial products as well as means of agricultural production. It should also include a rural financial market, a rural labor market, as well as markets for other elements of production such as land use rights, land operational rights, and agricultural technology. After the prices of agricultural by-products are sorted out, family operation will take the road of commercialization, helped by adequate and undistorted market signals which will also serve as a guide for the organization of production and the adjustment of the product mix. Because agricultural production is highly susceptible to nature, the supply of agricultural products is very elastic, while their demand is very inelastic. The state must employ taxes, interest rates, land rents, and other economic instruments to regulate the circulation of agricultural by-products and means of agricultural production and establish product stabilization mechanisms and risk-sharing mechanisms.

As part of the rural market system, the financial market plays a key role in ensuring stable rural economic development. In the last few years, a multitude of credit forms and short-term financing methods have mushroomed, along with a host of private financial organizations. Credit unions and the agricultural bank have also introduced some reforms. A financial market dominated by the lending and borrowing of short-term funds is gradually taking shape. By and large, though, there has been no progress of a breakthrough nature. A particular problem is that the Agricultural Bank wears many hats, pursues diverse objectives, and discharges ill-defined functions, which does little to expedite the development of a financial market. In the future, the developmental function of the Agricultural Bank should be separated from its function of helping the poor. It should be transformed into a commercial bank solely devoted to the rural credit

business and operated like an enterprise. A nonprofit rural investment development company should be set up to implement the rural industrial policy and guide long-term rural economic development. Private financial organizations should be standardized and given additional support so that they become the lead player in the rural financial market and compete on an equal level with the Agricultural Bank and credit unions. Controls on interest rates should be removed in order to vitalize the rural financial market. The central bank should guide rural financial operating units regarding the direction of credit, regulate the scale and mix of investment by tightening or easing the money supply, and clearing up the fund-circulating channels between the countryside and cities, thereby facilitating the growth of a market for other elements of production and the circulation and combination of all elements of production.

4) Separate government and enterprise at the rural grassroots level and reform township enterprises.

To remove government from enterprises in the countryside, the "commune-production brigade-production team" system has been abolished. In its place, however, has emerged a "township-village-group system" in which government and enterprise functions are undifferentiated. Township enterprises in some economically developed areas continue to follow the principle, "what is commune-operated belongs to the commune, and what is brigade-operated belongs to the brigade." This not only prevents township enterprises from becoming truly a part of the collective economy and stifles their internal vitality and the initiative of their workers, but it also causes them to isolate themselves from one another and compete excessively. Herein lies a major reason for duplication among and runaway production by township enterprises as well as their small scale of operations and low level of technology. Hence the need to untangle rural economic relations in accordance with the principle of government-enterprise separation and reform the ownership of township enterprises in order to advance the development of the rural commodity economy and of rural organizational construction. We may consider abolishing economic organizations at the township level, incorporating them instead into the town government so that they become government economic agencies in fact as well as in name and no longer involve themselves in enterprise production, operations, and distribution. Meanwhile, village offices should be set up in various administrative villages and village committees directly elected by the villagers should be created in the natural villages. In the process enterprises now run by communes, brigades, or villages will be detached from their "parent" organizations and become independent. Later on they should be authorized to own properties and manage themselves.

Township enterprises have developed very unevenly so far, with significant differences between the various forms, the major ones being the Suzhou model characterized by collective ownership and the Wenzhou model

dominated by household operation or joint household operation. Whatever the form of an enterprise, however, its future lies in a true cooperative economy, including collective ownership by its workers and by the residents in the community concerned. Moreover, a township enterprise should work its way toward a share-holding system in order to define property relations more clearly. The transition from the present system to a share-holding system can take any one of these routes. With the consent of the masses, what used to be collective accumulation may be retained as government share or converted into shares to be returned to the public. Alternatively, what used to be enterprise accumulation, other than the government share, may be converted into shares and distributed to workers in accordance with their contributions (based on the amount of a worker's wages over the years). To raise funds among members of the public, a new enterprise should adopt the share-holding system and issue stocks. Moreover, the transfer and sale of stocks should be allowed under some circumstances. After these reforms are implemented, township enterprises should not be subordinate to township and village administrative organizations whatsoever. However, their production and operations should remain under the proper coordination and supervision of the relevant government department. Township enterprises should be encouraged to organize interregional economic cooperative organizations or joint organizations specific to their industry in the market environment on the basis of voluntarism, equality, and mutual benefit.

4. Reform Tasks in the Next 5 Years (1991-1995)

After 3 years of hard work to set the economic house in order in the course of reform and construction, we expect economic life to be largely cured of its major unstable elements and currency circulation to be gradually regaining normalcy by the beginning of the Eighth 5-Year Plan. This would enable us to move decisively in reform, speed up the changes in mechanisms, and put together a framework where the new system prevails in the remaining 5 years.

4.1 The first decisive reform move is to basically straighten out prices and fundamentally alter the price formation mechanism. This is because the price mechanism is the market mechanism, the very heart of the entire economic operating mechanism. If the price mechanism is not changed, neither can the entire economic operating mechanism. Thus success or failure in price reform will decide the success or failure of economic structural reform. Defined broadly, price reform includes the reform of commodity prices, interest rates, exchange rates, wages, dividends, and rents, among other things. As a pivotal part of economic structural reform, it cannot be side-stepped.

It goes without saying that price reform can take place only in times of normal monetary circulation. In proposing more extensive reform in the next 5 years, we assume that the non-economic issue of currency will have come

to an end and that the growth of the money supply (M1) will have been brought under control. Still, structural price reform will cause price increases. It is imperative therefore that we take a step-by-step approach and deal with different groups of products (such as timber, iron and steel, and energy) in turns. Moreover, we should "combine adjustment with decontrol, adjusting first, then decontrolling." In adjusting prices, we must adjust taxes as well in order to accommodate the vested interests and lessen the burden on the state coffers. It does not look like we can deregulate grain prices, particularly in large and medium-sized cities. That exception aside, everything must be done to deregulate all other commodities within the last 5 years, circumstances permitting. After the two sets of prices edge closer through joint reform, we then can deregulate prices and replace dual pricing with unitary pricing.

At the same time as we work out price distortions, we should reform the circulation taxes by converting them into extra-price indirect taxes. The basic idea behind circulation taxes in recent years is that they should be imposed without causing substantial price movements in order to mitigate price irrationality. After prices are straightened out, circulation taxes should be reformed with the development and maturing of the market in mind. It should be clearly established that circulation taxes belong to the category of indirect taxes. Instead of being included in the price, it should be removed from the price and paid for separately by the purchaser. (The amount of the tax should be clearly stated on the receipt.) The sale tax should be retained, the product tax should be replaced by a value-added tax, and a consumption tax should be levied on special products. The unification of circulation tax rates involves fair competition and the formation of a unified market. For this reason, apart from replacing circulation taxes with extra-price indirect taxes, we should also return the power to cut or waive taxes to the central government. When a tax-sharing system is established, circulation taxes should be regarded as the taxes of the central government.

As price distortions are eliminated, price subsidies on some products may be abolished. Grain and oil subsidies presently in effect are one-directional subsidies in that they subsidize only the consumer. In the future they should be replaced by two-directional subsidies that subsidize the producer as well as the consumer. By subsidizing the producer, we can stimulate supplies. By reducing consumer subsidies, we can restrain unjustifiable consumption demand. That way we can work out an effective subsidy mechanism that operates at both the production and the consumption ends.

Big strides in price reform should be accompanied by an accelerated pace in the development of markets for funds, labor, and other elements of production. Interest rates, exchange rates, wages, dividends, and rents should be adjusted and then decontrolled, followed by the gradual introduction of market mechanisms. Nevertheless, long-term funds markets such as the stock and bond

markets, a foreign exchange market, and a labor market will remain in the growing stage in this period and need to be furthered in the years ahead.

4.2 Gradually shift from the contracting system to the share-holding system and, by defining property rights, turn enterprises into commodity producers and operators that have genuine operational decision-making authority and are responsible for their own profits and losses. As practiced currently, the contracting system is a relatively good operating method that does not disrupt the original pattern of property relations. It separates ownership from management properly, reduces administrative interference, and changes the operational mechanisms of an enterprise. Be that as it may, the contracting system is established on the basis of "one-on-one" negotiations. No objective standards govern the determination of the contract base. The system has reinforced administrative coordination and worked against the appearance of a level playing field. When supply and marketing conditions and prices change in the contracting process, there is no alternative but to revise the base number as well with the state remaining as the risk taker. For all these reasons, while the contracting system has clearly paid off in some ways, the failure to clearly define property relations in state enterprises has deprived those enterprises of independent property rights. As a result, enterprises have still not been revitalized.

Therefore we must go beyond the contracting system and work our way to the share-holding system. We must realign property rights, establish clearly the rights of the owner and those of the operator, and put an end to the enterprise's economic dependency on the state. Instead, it must assume responsibility for properties as a legal person. After prices have been sorted out, the enterprise should vigorously shake off its economic dependency on the state and become totally self-managed. It should also replace soft budgeting restraints with hard restraints so that it will be completely market-oriented instead of "keeping one eye on the higher levels and one eye on the market." Faced with market competitive pressures, it should improve operations and raise productivity.

There has been a good deal of discussion on the specific ways of effecting the change from the contracting system to the share-holding system. We should give the matter further thought and discuss it at length. Some ideas are particularly noteworthy. For instance, there is a proposal to replace individual contracting with contracting by a collective represented by an individual and with legal-person contracting. Another proposal is to replace external contracting (contracting with the appropriate government department) with internal contracting (contracting with shareholders or a board of directors). Yet other proposals seek to promote inter-enterprise investment and buying of stocks.

The current contracted management responsibility system in foreign trade is a regional power-sharing method of an administrative nature. Although it has ended the

state's total responsibility for profits and losses and eased the contradiction between exporting and earning foreign exchange, on the one hand, and the treasury paying out subsidies, on the other, the foreign trade enterprise remains an appendage of the local government concerned, not a major market player accountable for its own profits and losses. Direct control and administrative interference are still a fact of life. As prices are sorted out, enterprise reform intensifies, and an export-oriented development strategy is put into effect in these 5 years, the foreign trade system must also be reformed to turn the foreign trade enterprise into the leading market player that has decision-making authority in operations and is responsible for its profits and losses. The power to engage in foreign trade should gradually be delegated to production enterprises as well, to enable them to participate directly in international market competition and benefit from comparative advantage. Of course, substantial differences will remain between international market prices and domestic market prices, so there is still a need to resort to tools such as license bidding, quota auctioning, fixed subsidies, export rebates, and export credits. Joint foreign trade corporations should be set up to improve the standard and mechanisms of foreign trade. Compared to other enterprises, foreign trade enterprises would be slower to become truly responsible for their own profits and losses.

4.3 The last 5 years should see macroeconomic management reform reach an even higher level. The separation of state management from asset ownership should be furthered, as should the divorce between asset ownership and enterprise operational authority. The general principle in government functional reorganization is to coordinate political structural reform with economic structural reform, with the two propelling each other forward, and make government functions legal, institutionalized, and highly efficient.

After enterprise reform has been intensified and when the market system is basically in place and prices have largely been deregulated, a variety of indirect regulatory and control mechanisms can be expected to emerge in succession in this period to constitute a guidance planning system. The regulatory system of guidance planning mainly takes the form of government participation within the market and regulation without. The principal forms of government participation are adjusting the amount of market elements coming in and going out, buying and selling stocks and assets, and procuring certain rare resources, etc. Extra-market regulation consists of regulating the money supply and economic parameters and imposing legal and regulatory restraints. We should synchronize the development of the market with the shift toward the macroeconomic regulatory system. Toward that end, we should draw up and implement an industrial policy, fiscal and monetary policies, and a consumption guidance policy.

As reform intensifies, administrative power-sharing must ultimately be replaced by economic power-sharing. One of the more important measures involved here is to

shift from the "eating-from-different-stoves" system to tax-sharing. Tax-sharing refers to delineating the jurisdiction of the central government and local authorities in writing tax laws and managing taxes. It does not mean revenue-sharing. The purpose of tax-sharing is to sever the links between local authorities and the utilization of enterprise assets, restrain the investment impulse of local governments, and demarcate the methods and scope of market participation on the part of the central government and localities. The difficulty in implementing the tax-sharing system is the uneven pattern of economic development in the country. Almost half of the provinces and autonomous regions now retain all the revenues collected and still need financial subsidies from the central government. Without extensive changes in the price system and tax system, tax-sharing would be impossible. At present, most revenue-poor provinces are resource-rich. As prices are adjusted and reformed and raw materials begin to bring higher prices, this situation should improve. Accordingly, consideration may be given to instituting new taxes, the most important of them being the land use tax and resource tax, to improve upon the present situation of few local taxes yielding spotty revenues and pave the way for a tax-sharing system.

To reallocate revenues between the central government and localities, we need also to define clearly the scope of local government spending, something to be done in coordination with the reform of the investment system. In the future, apart from administrative expenses and investment in capital construction of a local nature, the local department of finance should no longer invest in the establishment of enterprises. Only when we make this a rule would the reform of central and local financial systems achieve any breakthrough.

Banks will play an increasingly important role under the new macroeconomic regulatory system. In this period, therefore, we must further improve the macroeconomic regulatory mechanisms of the central bank. As stocks and bonds enter the market, banks will take up a more and more active role in regulating monetary circulation through the funds market. Even more important, we must improve the central bank's macroeconomic regulatory function by adjusting the amount of re-lending to special banks and the interest rates of re-lending. Meanwhile, we should commercialize special banks and, as local government assumes new functions, end local administrative interference in banking and credit activities. By perfecting the market system and flexibly adjusting interest rates and using them for leverage, we should be able to more effectively carry out a monetary policy whose centerpiece is currency value stabilization and keep the money supply expanding at a rate roughly commensurate with the growth of the GNP.

Assuming that these several reform measures can be completed by 1995, the new system will come to dominate China's socialist economy organizationally and operationally. If we look at the final result of 8 years of

reform, the pace of change will not be slow at all. As it turns out, our reform philosophy is actually one of accelerating reform in earnest because it integrates reform with development, growth with stabilization, and bases reform on steady, solid progress.

5. Fight Decisive Regional Battles; Pursue Uneven but Continuous Progress

5.1 Based on the philosophy of "progress amid stability," we need to do more than phase in reform in stages over a period time as described in Sections 3 and 4 above. In spatial terms, we must also phase in reform geographically and adopt a "fight-decisive-regional-battles-and-pursue uneven-but-continuous-progress" strategy for the following two major reasons. For one thing, China is a huge country where the level of economic development and the extent to which the commodity economy has developed vary tremendously from one region to the next. Therefore, whether in reform or development, we cannot adopt one method across the board. Instead we must set priorities and proceed in an orderly sequence. Areas with a relatively developed commodity economy and better equipped to adopt new institutions and new mechanisms not only can move ahead faster as reformers, but should also be more thoroughgoing in their reforms. In areas with an underdeveloped commodity economy and lacking the necessary conditions, reform should proceed more slowly and on a more modest scale. They can speed up and intensify reform when they become better prepared.

For another, reform itself is a long-drawn-out battle, complex and arduous. Only by constantly reviewing and accumulating experience can we replace the old system with the new one step at a time, gradually enabling the latter to dominate the economy. To mount an all-out drive in one fell swoop necessarily increases the difficulty and risk of leadership and organizational work and may lead to severe disruptions, to the detriment of stable national economic development. Therefore, it is advisable to select regions that are better equipped and concentrate our energies there to achieve a breakthrough, thus paving the way for subsequent reform and gaining experience. In the short haul, this strategy seems to slow things down. In the long run, however, it brings us closer and closer to the goals of reform. For this reason it is a feasible option.

5.2 In terms of economic development, China today can be divided into three major regions: the economically developed region along the southeastern coast, the less developed region in the center, and the underdeveloped region in the west. Within any one single region, there are also different levels of development. The scramble in the last few years in which everybody fought to come out on top in reform and development has only sharpened economic stratification.

Regarding regional development theory, there has been a debate in China between the advocates of "uneven but

continuous development" and those of "leapfrog development." Economic reformers some years back tried to achieve across-the-board nationwide improvements with the result that everybody tried to outdo everybody else. This was vital to dismantling the old system and searching for new approaches. However, after years of practice, what is in many ways an uneven pattern of development has appeared because regions do differ in their foundations. In particular, the coastal region has made much greater progress in developing a market system, including a consumer goods market, a capital goods market, a funds market, a technology market, and markets for other elements of production. Some markets have largely been decontrolled, some have begun to take shape, and some are budding, all developments favorable and essential to the reorganization of the microeconomic base and the shift in operating mechanisms. Of course, to say this is not to deny that many innovative reforms have taken place in the central and western parts of the nation as well.

Spectacular progress has been made in opening up to the outside world in recent years. Because of its adoption of an export-oriented economic strategy, there have appeared in the coastal region special economic zones, opened cities, opened areas, and the hinterland, each with its different level of openness. This has generated new momentum for reform. Increasingly, opening up to the outside world has internationalized economic activities along the coast, making it necessary for it to dovetail with the operating mechanisms of the international market. The open policy has also let in foreign capital, foreign technology, and foreign-funded enterprises, necessitating the rapid growth of financial, technology, labor, and real estate markets. Moreover, to the extent that they compete in these markets, foreign-funded enterprises have both stimulated and served as a model for state enterprise reform. All this has heightened the sense of urgency in the coastal region regarding reform and influenced reform in the interior.

In view of the circumstances described above, the spatial distribution of reform intensification should also adopt a horizontal double track or even triple track system. We can put it this way: "fight the decisive battle in the east and gradually move westward." The advantage of this approach is that it is both active and cautious in that it utilizes to the full the reform resources of different regions while ensuring stable economic development nationwide. It is feasible and can serve as a demonstration project. It leaves room for maneuver in reform and development and ensures substantive progress in both.

5.3 The first major battlefield in our regional strategy should be the southeastern coastal region. In population, labor force, GNP, the output of major industrial goods, revenues, money in circulation, and science and technology, the region accounts for over half of the national total. In reform too it has chalked up the most progress in recent years. Special economic zones like Shenzhen, for instance, have all moved ahead of the country in enterprise and market reforms and macroeconomic controls.

Many of their practices are applicable in the interior and some have been popularized there. The 12 policies recently introduced by Guangdong Province with central permission have significantly accelerated reform, including some which are closing in on the targets. As the nation's largest SEZ, the newly created Hainan Province is taking even more special policies to open itself up even further. A latecomer to reform, it may wind up surpassing other provinces that started earlier. Other coastal provinces and municipalities as well as Liaoning Province each have their own unique achievements in urban and rural reforms.

Depending on the situation, mid-term reform in the coastal region should meet three requirements, broadly speaking. First, the set objectives of mid-term reform nationwide must be met on schedule. Second, when an objective can be met ahead of time, everything should be done to achieve that in order to provide even more mature experience for future reform. Third, within limits, we should proceed with certain pilot projects ahead of time to explore new paths for reform in the long term.

In the next 3 years, reform along the coast should emphasize the following: 1) Ownership and enterprise reform. Small enterprises should essentially accomplish "contracting," "leasing," and "selling." Large and medium-sized enterprises should perfect the contracting system. About one-third of them should then move on to some form of the share-holding system. 2) Market reform. The consumer goods market should basically mature. The bulk of capital goods should become part of the market. After the short-term funds market is fully developed, the long-term financial market should also make greater headway. Other capital goods markets should begin to take shape. 3) Indirect macroeconomic regulation should be accomplished and a comprehensive set of economic laws and regulations should be in place. 4) Rural reform in developed areas should resolve the existing major problems to ensure that agricultural production reach a new level.

The coastal region may also experiment with the following in the next 3 years: 1) Within appropriate limits, places abutting the SEZ's may introduce joint price-tax-financial-fiscal reform and completely decontrol and straighten out prices; 2) Every effort should be made to achieve breakthroughs in and standardize the contracting system in its many shapes and forms involving enterprises and localities; and 3) Further innovations may be made in the foreign trade system, the utilization of foreign capital, and the introduction of foreign technology in order to meet the needs of developing an export-oriented economy.

The coastal region exercises a vital impact on the entire nation. As a leader in reform, it should "design painstakingly, plan meticulously, act in an orderly, coordinated way, and fight only battles it can win." It is therefore necessary to maintain stable economic development throughout the country, avoid "overheating,"

and keep needed material and financial resources in stock to support coordinated action if necessary. On the other hand, as a pacesetter in reform, the coast should take into full consideration the fact that it serves as a model for the nation, being extra careful to avoid affecting the stability of the economy.

5.4 As the eastern region is fighting decisive battles, the central and western parts of the nation should adopt a strategy of "stable development, stable reform." Since there is unevenness within the regions, with different levels of development between cities and countryside, and between large cities, on the one hand, and small and medium-sized cities, on the other, we must tailor measures to suit local conditions. As far as mid-term reform objectives are concerned, a handful of cities (Wuhan, Chongqing) should strive to meet the average national goals. For some areas (jurisdictions below small city level), we may make the objectives a little more modest. This is not to slow down reform artificially, but to uphold the principle of proceeding from reality and treating each case separately.

In the first 3 years, reform and development in the central and western regions should concentrate on setting the economic house in order and on capital construction to gradually remove the various handicaps to the development of a commodity economy and develop reform personnel, including entrepreneurs. It should be realized that these regions have tremendous strengths such as abundant resources and a strong three-line industry. As the coastal region pushes for an export-oriented economy, it will withdraw from part of the domestic market, a boon to the drive by the interior to create a commodity economy. As the coastal region takes the lead in reform, it may be able to teach the interior what to do and what not to do, from which the interior can benefit. As its economy picks up steam, the coastal region will increase its contributions to the state, which will ensure that the interior will continue to receive support and cooperation from other parts of the country after it acquires a capacity for self-development. It is conceivable that while they will go slow on reform in the next 3 years, the western and central regions will still accomplish a good deal by learning from the success story of the coastal region and by innovating based on their own local circumstances. For instance: 1) Reforming the ownership system. The urban and rural individual economy and private economy may account for a bigger share of the regional economy than the national average. 2) The maturing of the markets. Having just emerged from a semi-natural economy, they are bound to be different from their coastal counterparts; 3) Owing to still imperfect market mechanisms, the shift from direct to indirect macroeconomic controls must go through a series of steps and assume more forms.

Looking at the nation as a whole, the three regions complement one another in reform and development, so we should handle their relations properly. At present, the coast is concentrating on processing industries and

depends on the interior for much of the raw materials needed. In the midst of common development, interregional conflicts are sharpening by the day. We must prevent the erection of trade barriers between regions and adjust interest relations between producers, suppliers, and buyers. Also, we should ensure that structural optimization and industrial changes in the east provide the western and central regions with funds, technology, equipment, etc., to drive economic growth and structural adjustment in those regions. As regions fight their decisive battles and strive for uneven but continuous development, price reform may possibly set off shock waves from the east to the west, from the south to the north, with varying effects on producers and consumers in western and central China. We should tighten money supply and credit appropriately to limit the extent of price increases to what the residents can bear. It is expected that after 8 years of hard work, all three regions will come up with new achievements in reform and development, that regional imbalances will gradually diminish, and that a spatial distribution much sounder than the present setup will emerge.

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Issues in Thorough Price Reform

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[Article by Wang Zhenzhi 3769 2182 0037, Institute of Finance, Commerce and Commodities Economics, Chinese Academy of Social Sciences: "Several Issues Pertaining to Thorough Price Reform"]

[Text] Since the Third Plenum of the 11th Party Central Committee, China has made comprehensive reform in the price system and the price administration system. The 9 years of reform basically has been a success, but during the transition between the old and the new systems, some problems have emerged. We should take a theoretical approach to explain and probe further into these problems.

I. Progress and Problems of Price Reform

China's price reform proceeds under the guiding principle of blending price adjustments with decontrol. Before 1984, the emphasis was put on price adjustments, but after 1984, the emphasis has shifted to decontrol. In tandem with price reform, reform of the price administration system has also been implemented.

The focal points of price adjustments are: (1) Substantially raising the procurement price of agricultural products. The overall procurement price of agricultural products was 77 percent higher in 1986 than in 1978, averaging a 9 percent increase each year compared to the 3 percent annual increase between 1952 to 1978. In terms of the product categories, the procurement price for grain has risen 122 percent, among them, wheat

prices have gone from 0.26 yuan to 0.46 yuan per jin, and the price of japonica rice has increased from 0.18 yuan to 0.4 yuan per jin. Procurement price for meat and poultry has increased 72 percent, and the price of aquatic products has gone up 208 percent. Agricultural product prices have gradually become more reasonable subsequent to the price adjustments. (2) Substantially raising the price of mineral products and raw materials. Compared with 1978, in 1986, mineral product prices have gone up 55 percent; the price of raw coal has almost doubled, raised from 16.52 yuan per ton to 32.33 yuan. The price of raw materials and industrial goods has increased 45 percent, including a more than 90 percent increase in the price of pig iron, from 150 yuan per ton to 285 yuan per ton. The price of processed goods has also gone up 13 percent. The factory-exit price of various industrial products has moved in the right direction as a result of the price adjustments. (3) Raising the selling price of some provisions and non-staple foods. Except for grain, oil, salt and sugar which are being rationed to township residents, the price of provisions has increased 59.8 percent, and the price of non-staple foods has increased 86.2 percent. (4) Raising the selling price of some industrial products while lowering the price of others. The price of such items as cotton, aluminum pots and pans and other aluminum products, and motorcycles has been raised while the price of such goods as chemical fiber textiles, watches, radios, VCR, and other electronic products and some durable consumption goods has been lowered. Statistics show that, on the balance, the price of industrial consumption goods has gone up around 5 percent. (5) Raising the price of communications and transportation. Railway transport price has risen 21.6 percent, and the prices of water and air transportation have also been properly adjusted.

Price decontrol began during the second half of 1984. In October 1984, at the Third Plenum of the 12 Party Central Committee, it was decided that, "simultaneous with the price adjustments, we must revamp the overly centralized price control system, gradually reduce the scope of the state's centralized pricing, and expand the scope where floating and free market prices may vary within a certain range." This is a breakthrough in the theory and concept of price reform. Since then, between 1985 and 1987, the change in the pricing mechanisms has taken a big step forward. Except for some agricultural products which are under procurement contracts and which follow the contract procurement prices, prices of all other agricultural products have been decontrolled. Some of these products follow state price guidelines; some have adopted orderly market-regulated prices; others follow free market prices. The major capital goods have adopted a double track pricing system whereby the state controls the price of the planned portion of production while the extra-plan portion is completely decontrolled. A large majority of the daily consumption goods has come under the free market floating price system. The state still controls the price of the important light and textile industrial goods but has decontrolled some of the everyday categories and all of the small goods.

After 9 years of reform, China's price administration system has escaped the confine of the traditional highly concentrated centralized planning system and has set up a pricing format with unique Chinese characteristics. It consists of state-set prices, state price guidelines, and market-regulated prices.

At present, the country's distorted price structure and the rigid ways of setting prices are the main problems yet to be resolved. In particular, the decontrol of some products has caused their prices which have long been suppressed under the centrally planned pricing system to surge, and together with some other factors, the retail price indices have climbed at a rate of 7.3 percent every year for the 3 years from 1985 to 1987. During the most recent year, especially, the surge in the market price of pork and sugar has been coupled with shortages, and as a result, rationing of pork and sugar in large and mid-sized cities has resumed, and administrative measures which had been abolished during reform have been brought back and reinforced. Therefore, we must find more effective countermeasures and implement thorough price reform and let a new pricing system take control.

The difficulty of thorough price reform lies in integrating the adjustment of the price structure with the control of the price level. The adjustment of the price structure has triggered a combination of price surge and inflation, and people have generally blamed inflation on price reform. Because price reform has brought a rising retail price index in the market, it has become the focus of discussion at all levels. People wonder if the price reform will hurt their standard of living. This issue warrants comprehensive analysis. For the nation as a whole, on the average, the income of the workers and peasants has increased faster than the increase in prices, and their standard of living has improved in recent years. Statistics show that, compared with 1978, the retail price index nationwide has climbed 35.8 percent in 1986; average wages of workers within the publicly-owned system has increased 120.3 percent (increased from 644 yuan to 1,419 yuan.) Discounting the price increase factor, the real increase in average income was 53.2 percent. Per capita average income in the cities rose from 316 yuan in 1978 to 828 yuan in 1986. Per capita net income for the rural population increased from 134 yuan in 1978 to 424 yuan in 1986, a 160 percent increase after discounting the price increase factor.

The extent of price increase varies, however, among townships, among the prefectures, and among different product categories. Statistics show that, compared with 1978, retail prices have increased 44.8 percent in the cities and 29.5 percent in the rural areas in 1986. Among the cities, prices in large cities like Guangzhou and Shanghai prices have risen more than 50 percent, and about 20 percent in Zhengzhou and Jinan. In terms of the different product categories, the price of non-staple foods has gone up 86 percent and the price of vegetables has more than doubled. Coupled with the higher prices,

many enterprises and individual households have raised prices and fees arbitrarily. These conditions have made life very difficult for many government workers, army cadres, teaching staff, and those who are furloughed or retired and have no other source of income.¹ The solution lies in establishing a permanent system to subsidize the workers' wages when prices rise.

II. Problems Facing Agricultural Product Prices and Countermeasures in Thorough Reform

At present, agricultural prices have several major problems. Contract procurement prices for grain are the lowest among all agricultural product prices, the price of some agricultural products has skyrocketed, and the situation where the procurement prices exceed the selling prices of some provisions has become worse.

(1) Grain prices once again have dropped to the bottom among all agricultural products. Since 1985, because of the decontrol of agricultural product procurement prices to give play to the market regulatory effects, prices have risen sharply; however, the contract procurement price of grain has remained basically unchanged. This has resulted in a new kind of price disparity. Based on material supplied by the State Statistics Bureau, compared with 1984, the increase in the procurement price of several categories of agricultural products in 1985 is as follows: grain—1.8 percent, economic crops—4.3 percent (including a 9.5 increase in the price of flax,) poultry—24.1 percent, silkworm cocoons and natural silk—5.5 percent, fresh vegetables—50.4 percent, fruits—31.6 percent, and aquatic products—51.3 percent. Based on our investigation in Hubei, in 1986, the government monopolized procurement price for each dan of paddy was 11.5 yuan, the contract procurement price was 15.59 yuan (this is the "inverse 3:7 ratio" price,) the purchasing agency price was 19.43 yuan (2.1 yuan on top of the extra-quota procurement price set by the state,) the negotiated purchase price was 21.5 yuan, and the national fair market price normally ranged between 24 and 25 yuan (from 1986 to May 1987.) The national fair market price and negotiated price exceeded the contract procurement price by 54-60 percent and 38 percent, respectively, and the difference between the planned and out-of-plan prices is substantial. Because the contract procurement price is too low, many peasants are reluctant to grow a bigger crop and procurement contracts often go unfulfilled. In addition, the high price and the wide profit margin of some agricultural products have led some peasants to increase production recklessly. This situation has a very adverse effect on the concerted development of the national economy.

(2) Some agricultural product prices rise and fall sharply, causing severe fluctuations in production. After the decontrol of the procurement price of agricultural products, some products have succumbed to short-term supply and demand conditions in the market, and their prices have risen or fallen sharply. This is detrimental to the steady production of agricultural products. For

example, after the price of ramie was decontrolled, procurement price per kilo rose sharply from less than 2 yuan to 18 yuan. Skyrocketing ramie prices led many peasants to plant bigger crops; total crop acreage increased from just over 1 million mu to more than 8 million mu nationwide, and many grain fields were taken over by the ramie crop. This condition began to turn around only after the maximum price for ramie was limited to 3.5 yuan per kilo in 1987. When jute and the bluish dogbane were decontrolled in Hubei, prices surged and led to a huge increase in the total acreage of those crops in 1985; total output was 9 times the 1980 amount. It eventually led to an excess stockpile, and prices plummeted, and this in turn led to a drastic crop reduction in 1986, causing an acute shortage of raw materials in the flax and textile industries. As another example, in Zhejiang the pre-decontrol price of rabbit hair was just over 20 yuan per jin, and, for a time after decontrolling it, prices shot up to 80 to 90 yuan and even over 100 yuan in some areas. However, prices dropped sharply back to 30 yuan in 1986. The rabbit-raising industry had gone through several ups and downs in the interim. Surging and plummeting prices inevitably lead to severe fluctuations in production which debilitate agricultural producers and undermine the steady increase in agricultural products.

(3) The situation where the procurement price of the essential provisions exceed the selling price has deteriorated, and state price subsidies have continued to climb year after year. Today, contract procurement prices for grain and oil have more than doubled the 1966 prices, but grain and oil are being sold to township residents at 1966 prices. Many problems have resulted because the procurement price is persistently higher than the selling price of the main provisions. First, the increase in government expenditure to subsidize the procurement price disparity has increased the government's financial burden. In 1985, price subsidies cost the government 27.4 billion yuan, more than 10 billion yuan over the 1980 budget. In 1986, each jin of rationed provisions for the citizens cost the government 0.13-0.14 yuan in subsidies; each jin of vegetable oil cost the government 0.8 to 0.9 yuan; and it cost the government 0.6-0.7 yuan for each jin of eggs, and 0.5 yuan for each jin of pork. In 1986, the Beijing Municipality spent 1.96 billion yuan to subsidize the daily lives of its citizens. This comes to an average of 1 yuan per capita per day. Two, because the procurement price is higher than the selling price, regulating regional surpluses and shortages and commodity circulation has become much more difficult, and efforts to suit measures to local conditions and adjust the structure of agricultural production are hampered.

The above problems must be promptly dealt with during thorough agricultural price reform. Our basic ideas are:

(1) Raise the contract procurement price for grain.

Grain production in China will continue to fall short of demand for an extended period of time, and in addition, we do not have a healthy market system yet. Under this

situation, if food prices are completely decontrolled, it will certainly cause food prices, the price of all agricultural products, and even all market prices to soar. This cannot be tolerated by the state, enterprise, or the people. Today, governments all over the world are interfering with agricultural prices, especially grain prices, in one way or another. To solve the problem of low grain contract procurement price, we must adopt comprehensive measures and try to make it profitable for grain-producing peasants. Besides continuing to rely on industry to support agriculture, we should consider the following measures. One, reduce the total quantity of contract procurement. Two, raise the contract procurement prices. The first step is to raise the "inverse 3:7" price ratio (that is, 30 percent based on the original government monopolized procurement price and 70 percent on the original overbought price) to the level of the original overbought prices. Three, we must amplify the incentive sales measures and make sure that grain delivery and incentive sale of chemical fertilizers do indeed proceed simultaneously; those sales must be honored on the spot, and eliminate any kind of middleman interference. Four, decontrol interprovincial grain allocation and transfer. We feel that there should be a 20 to 30 percent difference between the reasonable contract procurement price of grain and the market regulated price. Peasant income from grain sale at contract procurement prices plus the incentive sales and other rewards received should more or less equal the income from the sale of grain at market regulated prices. As the government financial situation improves later on, the income in the former case should be slightly higher than the latter case. Only in this way can we guarantee the fulfillment of the contract grain procurement tasks.

(2) Control the Sharp Rise and Fall in Some Agricultural Product Prices

The sharp rise and fall in some agricultural product prices is a pressing problem in the administration of prices today. We have a choice of countermeasures: (i) Implement double track pricing among the major agricultural products (the country's essential industrial raw materials, the people's daily necessities, and crucial export products.) This means the state will procure the country's essential products under contract and at state-set prices or price guidelines. Portions not covered by procurement contracts will be regulated by the market. Although the adoption of the double track system means that some products will have two sets of prices, contract procurement can keep prices relatively stable and can guarantee the volume of output and the demand for those products, and this will benefit both the suppliers and the consumers. In order to avoid excess disparity between the two sets of prices, the state should make timely adjustments of its set prices and price guidelines when the production cost of various products and market supply and demand conditions change so as to ensure reasonable and stable income for the peasants. (ii) Implement state price guidelines for major agricultural products, and allow prices to fluctuate within a definite range.

Central to the state price guideline is the maintenance of overall balance in income generated by different crops and the prevention of excess price fluctuations in order to facilitate the coordinated development of the production of the different crops according to economic needs. (iii) Implement comprehensive reform of the agricultural tax system. The state can set up new agricultural tax rates based on present levels of income generated by different crops, and, through taxation, the state can take away the excess income generated by some crops and use the revenue to develop agricultural production. The objective of manipulating prices and taxes jointly is to maintain an overall balance in income generated by the different crops to stamp out the reckless development of some economic crops. (iv) Put major agricultural products under a procurement quota system. Procurement by various departments may not exceed quota, and departments not allotted quota may not procure any of the products. We should also set up a futures market on a trial basis for certain products (live hogs, for example,) and settle output and prices a year ahead of time, either by contract or in the futures market, and enact laws to protect these transactions. This will prevent the kind of output and price fluctuations caused by shortages or excess supply in the event of a crop failure or a bumper crop. The state should establish reserve funds and funds for stabilizing the price of products which are highly susceptible to natural disasters and for which the output is therefore unreliable. This is particular true for crops, such as vegetables, in the cities.

(3) Solve the problem of the reversed procurement and sales price relationship:

(i) Reform the selling price of grain. First, we can decontrol the price of grain purchased by the various trades in the market and eliminate purchase vouchers for these provisions at the same time. The price of grain which is rationed to the township residents can either be left alone for the time being or can be brought up to the level of the procurement prices, and the state will continue to absorb the handling cost. As the price of the rationed products rises, workers' wages should be subsidized. (ii) The selling price of oil and bean products which are being rationed to the township residents should be adjusted, and workers should be given wage subsidies as prices go up. (iii) Actively generate conditions to allow the gradual removal of price subsidies for meat, poultry, eggs and other products. In the future, selling prices should be adjusted in tandem with the raising of procurement prices. The price of sugar and other products which are in short supply should be decontrolled to let the market balance supply and demand. The increase in food prices should be linked to workers' wage subsidies (subsidies apply only to the portion of price above the original rationed price), and bring the previous hidden subsidies into the open. (iv) The state may also levy higher taxes on certain enterprises producing non-essential luxury food products and keep the prices up, but designate some stores to specialize in the sales of these products to make them more

available in order to satisfy the need of a segment of the population. (v) The decontrol of food prices will help slow the rapid increase in spending on food products and help the citizens adjust their consumption-mix and the mix of food purchases. But we must not be too hasty; we must proceed in steps to avoid short-term price surge. As much as possible, we want to keep the rate of price increase below the annual rate of interest (7 percent.)

III. Changing the Double Track Pricing of Capital Goods to a Single Track System and the Thorough Reform of Capital Good Prices

The double track pricing of capital goods is a unique product of China's transition from an old system to new system. After several years, the pros and cons of double track pricing have become obvious and have triggered much debate and attention. To a certain extent, the system has promoted economic development. Higher out-of-plan prices have encouraged overfulfillment of planned production and enticed out-of-plan production of goods which are in short supply. In the past, township industries were not included in the plans, which made certain goods readily available at market prices, and this had expedited their major development. The double-track pricing system, however, violates the law of value and is responsible for the chaos in the realm of commodity circulation; it also makes the market and prices much more difficult to regulate. Double-track pricing frustrates state plans and adversely affects the material guarantee for the state's major construction projects and departments primed for major development. Excess disparity between the planned and out-of-plan prices invites speculation and profiteering. Some comrades feel that at the beginning, merits of the the double track pricing system outweighed the defects, but after a few years, it has brought too many problems, and today, defects outweigh the merits. Therefore, many scholars, both at home and abroad, feel that it is time to abolish double track pricing. We must take effective measures to promptly replace the double track system with a single track system.

There are two different ideas on how to turn the double track pricing system into a single track system. One suggestion is to adjust prices gradually and raise the planned product prices slowly to the level of market prices on one hand, and on the other hand, decontrol some of the products which are under state plans and put them in the market. The increased market supply will help lower the relatively high market prices. Applying this two-prong method to reduce the price disparity between planned and out-of-plan product prices is one way to merge double track prices. Another concept suggests, depending on different product characteristics, a choice of adjustment (adjust product prices,) decontrol (decontrol prices,) and linkage (linking domestic prices to international market prices). This allows the state to control and set the price of a few products, but the market will regulate the prices of the majority of other goods, and each commodity will have only one set of

prices. We prefer the latter suggestion. In the process of turning the double track system into a single track system, exactly which product should be subject to price adjustment, which product should be decontrolled, and which product should be linked to international market prices should be determined by characteristics of the different means of production and should be selected based on their importance to the national economy and on supply and demand conditions in society. On the whole, we should emphasize price adjustments in products whose prices are too low and are out of line with their value and whose market supply is tight. We should emphasize decontrol of products which can easily adjust their supply-demand balance. We should primarily adjust the price of products which are crucial, nationally oriented, and basic. Generally, local products intended for local sales should be decontrolled. Monopolistic products and products of scarce resources should emphasize price adjustments. Highly competitive goods and goods with transient market demands should be decontrolled. Import and export goods whose prices already approximate the international market price should be linked to the international price level.

In the transition from the double track pricing system to the single track system, the state should use an overall average price when it sets the price of the few products under its control, and as production cost and market supply-demand conditions change, these prices should be adjusted at regular intervals. The overall average price is the weighted average of the planned and out-of-plan prices, and with this price, the double track system with multiple prices will be merged into a single track system with only one set of prices. Because the overall average price is not as high as the out-of-plan price but not as low as the planned price, it will be a generally acceptable price for all sectors.

The merging of the double track pricing system into a single track system should be carried out in tandem with the thorough reform of the capital good prices. We feel that thorough reform of capital good prices should focus on adjusting the price of the primary products and decontrolling the price of the intermediate and the final products. Capital goods can be divided into three main categories—primary, intermediate, and final products—based on their manufacturing process. Primary level products generally include energy, major raw materials, and other mineral products. The input of primary goods produces intermediate products which in turn produce the raw material and processed materials to make the final products. Final products generally include mechanical and electronic products and some chemical and industrial goods. Different methods should be used to revamp the prices of these three product categories according to actual conditions in the country. The price of the primary level products should be adjusted, and the state should be allowed to set their prices (an overall average price should be used in the transition from the double track system to the single track system.) A combination of price adjustment and decontrol may be

adopted for the intermediate products, and they should follow state price guidelines (primarily, this means floating prices). Final products should also be decontrolled to let enterprises negotiate prices.

The reason we should adjust the price of primary products and allow the state to set prices is based on actual conditions in China at this stage. Primary products have many uses. They are the raw material, the fuel, and the impetus for the intermediate and final products. If we decontrol their prices and subject them to the market's spontaneous mechanisms, prices will inevitably surge, and this will seriously affect the cost and price of future productions; it will destabilize the economy, and it may even lead to serious economic disequilibrium at the macroeconomic level. Therefore we should mainly adjust the price of the primary products and let the state set prices. Some primary products have balanced supply and demand, and they can be decontrolled. Reform of the prices of intermediate products may be in the form of a combination of "adjustment" and "decontrol." Analogous to this method is the floating price system. This system is within the scope of the state price guideline system. The limit and scope within which the base price of the floating price may fluctuate should be determined and adjusted by the state, but enterprises may set their own prices based on market conditions, as long as their prices remain within the limits set by the state. Because the change in the floating prices is limited in scope, adopting these prices as the way to work out the reasonable price for the intermediate products will allow us to keep price fluctuations manageable. Among the intermediate products, some are perennially in short supply; we should let the state set their prices. Some products have a balanced supply and demand, and their prices should be regulated by the market. As for the base price of the floating prices, we have two options. First, we can let the state set prices (at the present stage, the overall average price will serve as the interim price). The other option is to apply a theoretical price based on several years' prices. We feel that using the existing state-set prices as the base price is more acceptable in most sectors. The price of the final products should primarily be decontrolled. Most of these products should be regulated by the market. Some products are in short supply, and to avoid price surge after decontrol, the state may set an upper limit to their prices, and the state may also control the price of a few isolated products. The determination of the price of most final products mainly should be left to the market because the change in the price of these products has relatively little effect on the cost or the price of the primary and the intermediate products. Final products are thoroughly and finely processed products, and they are very sensitive to the quality of craftsmanship and technique. Decontrolling these products will promote enterprises competition, raise their quality level, speed up renovation and replacement, allow the superior to eliminate the inferior, and improve society's economic performance. An example is the mechanical and electronic products. At present many ordinary enterprises are producing these goods, and there is excess capacity

which has already led to stiff competition. These industries are ripe for decontrol to let the market regulate the price of their products.

Footnote

1. See Cheng Zhiping [2052 5268 1627]: "Review and Reflection on the Eight Years of Price Reform," CHENGBEN YU JIAGE ZILIAO [COST AND PRICE INFORMATION] 1987, Nos. 11, 12.

12986

Categorizing Enterprise Groups

40060510a Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINESE ECONOMIC SYSTEM REFORM]
in Chinese No 7, 23 Jul 88 p 25

[Article by He Ting 7729 0080 and Xiao Xue 2556 7185:
"Summary of the General Situation of Enterprise
Groups"]

[Text] Enterprise groups are new entities which have emerged in the reform of China's economic system and are a negation of the enterprise organizational structure under the old system.

Categories

Since the 3d Plenum of the 11th CPC Central Committee, the position of enterprises as commodity producers or managers has been gradually confirmed, and enterprises have launched extensive lateral economic integration. Some relatively well-based enterprise aggregates have developed rapidly from small to large and have begun to form different types of enterprise associations and enterprise groups.

At Present, Most of China's Enterprise Groups Are Found in Such Industries as Machinery, Electronics, Light Industry, and Textiles.

In the machinery industry, comparatively large-scale groups include: three automotive industry groups (the First, Second, and Heavy Automobile Groups); four electrical equipment group companies in Shanghai, Harbin, Dongfang, and Xian; and such companies as the China Mining Equipment Manufacturing Corporation, the Jialing Industrial Company, Ltd., the First Tractor Engineering Machinery Joint Company, the Luoyang Bearing Industry Joint Company, the Dalian Refrigeration Equipment Joint Company, the Northeast Heavy Machinery Group Company; and the Wuhan Pneumatic Group Company.

Comparatively large-scale groups in the electronics industry include such computer groups as Great Wall and Changjiang; such electronics industry groups as Zhongshan, Zhenhua, and Panda; as well as such groups as the Shenzhen Saige Group and the Huanyu Electronics Joint Company.

Comparatively large-scale groups in light industry include: four bicycle groups (Yongjiu, Fenghuang, Feige, and Jinshi); such electrical appliance groups as Wanbao and Zhanjiang; and such beverage and brewing groups as Tianfu Cola and Xianghuacun Spirits.

Comparatively large-scale groups in the textile industry include the Damei and Kangda Textile Joint Companies, the Dieqiu Textile Printing and Dyeing Joint Company, and the Pacific Yarn-Dyed Fabric Group.

In military industry enterprises, such military-turned-civilian and combined military-civilian groups as Huanghe and Changfeng have emerged.

Enterprise Groups Can Be Roughly Divided Into Four Categories, According to Their Links With Respect to Product Economy and Technology.

The first category is the product diffusion type. This is based on large-scale mainstay enterprises, with such well-known name brand products as the "faucet"; they organize specialized cooperation, and form a multilevel network. For example, the First and Second Automobile Groups respectively have as their main body the First and Second Automobile Plants and are linked in the production of "Liberation" and "East Wind" brand automobiles. They have united several hundred enterprises throughout China and are currently reaping big benefits from large-scale batch production.

The second category is project coordination. This has as its main body a number of large-scale mainstay enterprises and related large-scale scientific research and design units and implements contracting of large-scale systems engineering or projects from equipment design, manufacturing and supply, and installation and debugging to training of personnel and after-sales service. The China Mining Machinery Equipment Corporation is this type of group.

The third category is the technology development type. This has as its main body many scientific research and design institutes or large enterprises in the same industries. It concentrates technological superiority and develops high-tech products. Some groups, such as the Great Wall Computer Group, combine the main body of production enterprises with research units. Others, such as the Changjiang Computer Group, Liaoli Group, etc., combine the main body of research units with production enterprise. This type of group is rooted in technology-intensive industries; it can quickly turn the results of scientific research into productive forces, manufacture high value-added products, and has relatively strong market competitiveness.

The fourth category is the general service type. This consists primarily of large-scale enterprises or scientific research and design units, combined with commercial, trade, and technical service units. This type of group has various functions, such as technological development,

production manufacturing, product marketing, and information, effective operation, and strong adaptivity, which are advantageous in developing an export-oriented economy.

The Groups Can Also Be Roughly Divided Into Two Categories, According to the Distinctive Characteristics of the Groups' Formation Processes and Organization Structure.

The first category is the single main body type. These are groups which consist of a large-scale mainstay enterprise as their basis, combined with a number of other enterprises. Most groups of this type conduct factory-run joint operations and with respect to the management structure and system, the enterprise group and main factory often form "one force with two signs." This type of group is currently relatively numerous, and also relatively developed.

Another category is the plural complex type. This is a group which consists of several mainstay enterprises as its core, combined with a number of other enterprises. This type of group engages primarily in decisionmaking, development, and services of enterprise groups.

Special Characteristics

The principal special characteristics of China's enterprise groups are as follows.

The overwhelming majority of enterprise groups emerge based on thorough development of lateral economic integration and are an aggregate of several enterprises with certain economic and technical links. These have many characteristics in common with ordinary enterprise aggregates, such as having common rules and a fixed organizational form, as well as clear distinctions, such as the fact that their core members have achieved unification of assets and management. At the same time, because it is subject to the restrictions of the existing system, the transition from aggregate to enterprise group must proceed gradually.

Most enterprise groups are formed with large-scale enterprises as their core and products and technology as their links. In a sense, the groups' production and operational activities are a serialization or extension of the core enterprises' products or technology.

There is little direct participation by financial institutions such as banks, insurance companies, and investment firms, and existing enterprise groups are basically classified as "industrial-type" groups made up of production and operation enterprises and commercial enterprises. Therefore, enterprise groups are concentrated primarily on several industrial departments with a relatively favorable basis for specialized division of labor and cooperation.

Planning units have become a required and important property of enterprise groups, which clearly shows the trend toward nationalization of enterprise group behavior.

Trends

With the intensification of reform of the economic system, the development of enterprise groups is on the rise, and new trends have emerged, of which the main manifestations are as follows:

1. Deep-level integration among enterprises is beginning to touch off a pattern of "three no changes."

With the intensification of reform, the "three no changes" principle with respect to the original ownership systems, subordination relationships, and financial relationships of the various parties in the enterprise combination is increasingly becoming an obstacle to the development of enterprise groups. In recent years, the tide of reform has begun to pound against the "three no changes" principle.

First is the practice of enterprises contracting with enterprises, which has both the special characteristics of contracted management and the special features of lateral integration. During the term of the contract, the contracted enterprises break away from their original subordinate relationships and return to contracting enterprise management. The contracting enterprise can concentrate the contracted enterprises' management authority, implement unified planning and management, and promote the group orientation of the enterprise organization structure. For example, the Mashengli Papermaking Group contracted 36 paper mills, and the Jilin Chemical Industrial Corporation contracted over 10 small chemical firms. This both relieved the financial difficulties of a number of poorly managed enterprises and increased the power of the group. The Beijing Sitong [Stone] Corporation was strong with respect to its operational mechanism, while the Yunnan Electronic Equipment factory was strong with respect to equipment. The two united, adopted each other's strengths and made up for each other's deficiencies, and thereby gave enterprise development a chance to succeed.

Second, in recent years, there has been rapid development of mutual investment, share participation, and share purchasing among enterprises. For one enterprise to invest in another enterprise, hold share rights, and, to a certain extent, achieve possession of assets is an effective means of expanding and strengthening the enterprise group. For example, the Second Automobile Factory, the principal enterprise of the Second Automobile Group, uses technology and capital to buy shares in member enterprises, while member enterprises use the factory buildings and equipment to purchase shares. Each side shares in the profits in proportion to its investment. There are already 17 such enterprises. Four local enterprises in Jilin Province have also adopted the asset share purchase form and joined the First Automobile Group.

Third, the compensated transfer of enterprise property rights or enterprise annexation has accomplished the unification of assets and management and has totally

overcome the principle of "three no changes." According to incomplete statistics on 17 provinces and municipalities, over 300 enterprises have implemented property right transfer. Implementing transfer of management rights for compensation and promoting the development of lateral economic integration to a deep level has provided a viable means of forming a "core level" of enterprise groups.

2. Enterprise groups have established finance companies and opened up channels within the groups for funds for short-term loans.

Because of the need for funds for short-term loans within the groups, such groups as the Second Automobile, Heavy Automobile, and Zhongshan Groups have established finance companies with the approval of the People's Bank of China. Finance companies are both a regulator of funds for short-term loans within the groups and a bridge linking the business dealings of the enterprises and banks or other financial institutions. It is seen from the practice of several groups that finance companies, through raising funds within the groups and providing specialized loans for the various enterprises within the groups, have played an important role in supporting the technical reform and development of new products and technology by the various enterprises within the groups.

3. The functions of the enterprise groups expand constantly and tend to become increasingly diversified and comprehensive.

When China's enterprise groups were first formed, most of them were assembled based on internal economic and technical links, and their functions were not comprehensive. In recent years, based on the development of the commodity economy and the need for market competition, enterprise groups have shown a trend toward multidirectional development. For example, the Changzhou Jinshi [Golden Lion] Automobile Group, besides the participation of over 150 production enterprises, also combines the participation of several dozen scientific research units, material supply departments, and 72 units of the national commodity system's three major marketing groups, as well as such units as bus stations, ports, and docks, vitalizing the various links of the group, from scientific research and production to marketing and transportation. The Beijing Damei Group, through several years of effort, established an information network extending throughout China and overseas. Various kinds of information are transmitted in a timely manner through sophisticated equipment such as the computer network within the group, which has increased the speed of development of new products and technology by the enterprises, and improved the enterprises' ability to adapt to the market.

4. Scientific research and production are interconnected, and a number of groups with scientific research and

technology units as their main body have emerged in succession. The rise of these scientific and technical service and high-tech development groups has attracted attention, and they are an extremely promising, vital new force among enterprise groups. The Beijing Sitong [Stone] Group, for example, deals primarily with micro-electronics technology and Chinese character information processing technology and has extensive market channels, flexible operational mechanisms, and unique, effective management methods. In 1987, it ranked second nationally in the industry. The Keli Group is made up of the Chinese Academy of Science's Keli High-Tech Corporation as its main body, combined with 25 units both within and outside of the Academy. It deals primarily with high-tech development services and has distinguished itself in the high-tech field.

5. Some enterprise groups have begun to develop an orientation toward exporting and are boldly making strides toward the international market.

Since the establishment of China's enterprise groups, in the course of implementing the coastal region economic development strategy and developing an export-oriented economy, the groups have begun to show their latent strength, and more and more enterprise groups have turned their attention from the domestic market to the international market, striving to create name brand products and become world-famous enterprises. The Hebei Huanzi Group, for example, adheres to the operational policy of orientation toward exporting, and has adopted international standards of product quality for all of its products. Huanyu brand televisions are being exported to such markets as the UK, the Netherlands, West Germany, Belgium, and Luxembourg. In 1987, it also invested jointly with the UK in a UK-run factory, exploring the transnational corporation approach. Since the establishment of the Shenzhen Saige Group, it has actively opened an international market, and participated in international exchange competition. In 1987, this group's export output value was 780 million yuan, and its foreign sales revenue was 150 million yuan.

At present, the development of China's enterprise groups is only tentative, and they are still in the process of development. However, with the development of reform and construction, many enterprise groups and enterprise associations must now be further divided, reorganized, and integrated, and finally form a number of strong, large-scale enterprise groups. These large-scale enterprise groups, together with large-scale mainstay industries, will become the main force of China's socialized large-scale production and the backbone of technological progress, and will also be the focus of China's hopes for ranking among the advanced nations of the world.

13387/12232

**Article Stresses Importance of Implementing
Stockholding System**

40060510b Shanghai SHIJIE JINGJI DAobao
in Chinese 8 Aug 88 p 7

[Article by Shu Hanfeng 5289 3352 6912: "Important Goals of Reform of Stockholding System, Enterprise System"]

[Text] For the past 10 years, China has consistently made the strengthening of enterprise vitality a central link in reform of the economic system. Reform of the enterprise system has successively taken three major steps. The first step was to give up authority and yield profits; that is, expand enterprise autonomy and implement various forms of profit retention. The second step was to implement a substitution of taxes for profits, substituting the payment of income tax and regulatory tax for the delivery of profits by enterprises. The third step was to implement a contract management responsibility system.

These three steps of reform are interrelated and progress gradually. However, viewed overall, all of these reforms remain at a superficial level and have not penetrated to the heart of enterprise system reform.

Based on the overall goal of developing a socialist commodity economy, the final goal of enterprise system reform is to allow enterprises to become independent commodity producers and managers and to achieve separation of government and enterprise, separation of two powers, separate accounting of funds, separate flow of taxes and profits, autonomous operation, assuming sole responsibility for profits and losses, self-development, and self-restraint. None of the enterprise reform measures up to now have achieved, or been capable of achieving, such goals. Only a stockholding system is capable of becoming a route toward these goals.

First, through clear property right relations, the stockholding system establishes the enterprise's position as an independent legal entity, promotes separation of government and enterprise, separation of two powers, and weakening of administrative intervention, thereby creating conditions allowing enterprises to become commodity producers and managers which operate autonomously and assume sole responsibility for profits and losses. Stockholding system enterprises are made up of the assets of numerous shareholders. However, as soon as a stockholding system enterprise is established, it becomes an independent legal enterprise entity, and the state, as a representative of property owners, like other shareholders, has no authority to directly control the operation of a legal enterprise entity, so that the enterprise's power of autonomous operation is greatly increased. Several experimental stockholding system enterprises in Shanghai have all reported that after implementing a stockholding system, there was a decrease in administrative intervention by high-level relevant leading departments, the enterprises' power of

autonomous operation increased, work efficiency was greatly increased, and the enterprises are now being transformed into real socialist commodity producers.

Second, through separate flow of taxes and profits, and distribution of profits based on shares, the system has delineated allocation relations between the state and enterprise and strengthened financial restraint. Stockholding system enterprises implement separation of taxes and profits, and the state, as a socialist manager, collects income taxes; while as a property owner, like other shareholders, it receives extra dividends. In this way, the allocation relationship between state and enterprise has been clarified and regularized.

Third, through personification of property rights and pluralization of interests, the system has spurred stockholding enterprises to form an operational mechanism for self-stimulation and self-restraint. One major law in state-owned enterprises is that the owner representative is not clearly stipulated. After implementation of the stockholding system, the enterprise manager not only must bear responsibility for state property, he must also bear responsibility to all shareholders, and if business is poor, and the level of extra dividends low, the enterprise's reputation will be diminished, and its future prospects threatened.

The stockholding system's function and role has many aspects. From the standpoint of enterprise system reform itself, its main function is to help perfect an enterprise operation mechanism, and thus it is the best choice for enterprise system reform.

Reform of China's economic system consists primarily of three elements: strengthening enterprise vitality, perfecting the market system, and improving macromanagement. These three elements are interlinked, complementing and conditioning each other, and no one element can proceed in isolation. However, enterprise is regarded as the creator of material wealth, the bearer of technological progress, and the principal component of the commodity and key markets. Enterprise reform is not only the starting point and end result of reform as a whole, it is also the basis for establishing an economic movement mechanism by which "the state regulates the market, and the market guides enterprise."

First, price reform must be coordinated with enterprise reform. Therefore, in order to allow price reform to escape its dilemma, it is fundamentally necessary to carry out reform of the enterprise system, namely, through implementing a stockholding system, to clarify property ownership relations, and spur enterprises to become commodity producers and managers which operate autonomously and assume sole responsibility for profits and losses. This is the basis for strengthening enterprises' bearing capacity, smoothing out price relationships, and establishing a normal price movement mechanism. After a stockholding system is implemented and the enterprise system is sound, the main body of

investment in operational projects, and especially profit-making projects, will no longer be the various levels of government, but rather enterprise itself. Therefore, the enterprises' decision-making with respect to investment must give consideration to economic returns, and this provides a powerful check on blind investment.

Moreover, the stockholding system can give impetus to reform of government agencies. The stockholding system is a specific form of enterprise system. stockholding system enterprises generally implement a system of manager responsibility-bearing under the leadership of the board of directors; administrative intervention in the enterprise by leading relevant departments at the central level has been greatly reduced, and an important step has been taken toward separating government and enterprise, thereby creating conditions favorable for organizational reform. At the same time, the implementation of a stockholding system requires separating the state's function of asset management from the functions of government administration and economic adjustment and control, and establishing an independent system aimed primarily at assets income. This will inevitably spur reform of government agencies.

The widespread establishment of stockholding systems will also greatly accelerate development of the market system, promote the formation of a long-term capital market, spur wage reform within enterprises, and establish a microfoundation for perfecting macromanagement.

13387/12232

PROVINCIAL

Beijing Semiannual Economic Development *SK1709093888 Beijing BEIJING RIBAO in Chinese* 2 Sep 88 p 1

[Excerpts] In the first half of this year, the municipality's national economy and social undertakings developed steadily and in a coordinated way. The implementation of the national economic development plan and budget plan was good. The economic situation was better than expected. This evaluation was made by responsible persons of the municipal government and relevant departments on 1 September.

On 1 September the fourth Standing Committee meeting of the ninth municipal People's Congress heard the report on the implementation of the semiannual national economic and social development plan made by Wang Jun, chairman of the municipal Planning Commission, and the report on implementation of the semiannual budget plan delivered by Wang Baosen, director of the municipal Finance Bureau. Participants in the meeting also heard the report by Ma Kai, director of the municipal Price Bureau, on Beijing Municipality's price reforms since the beginning of this year.

Wang Jun said in his report that in the first half of this year, the municipality's total industrial and agricultural output value was 23.2 billion yuan, fulfilling the annual plan by 54.1 percent and showing an increase of 17.9 percent over the corresponding period of last year; the total volume of retail sales of commodities was 10.53 billion yuan, an increase of 28.3 percent; and the total value of foreign trade was \$550 million, an increase of 22 percent. The total industrial and agricultural output value of suburban counties reached 6.61 billion yuan, an increase of 42.1 percent. Of this, the total agricultural output value reached 861 million yuan, an increase of 13.1 percent. The municipality reaped a bumper summer grain harvest this year. The total summer grain output reached 840 million kg and grain yields reached a record-setting 301 kg per mu. In the first half of this year, the municipality's industrial output value surpassed 20 billion yuan and reached a record-setting 20.04 billion yuan. The industrial output value in June reached 3.8 billion yuan, setting a record. Undertakings in educational, scientific, public health, and other spheres were developed steadily.

Wang Baosen said in his report: In the first half of this year, the municipality's revenue reached 3,273.84 million yuan, fulfilling the annual revenue plan by 49.6 percent and showing an increase of 2.2 percent over the corresponding period of last year. If calculated in terms of comparable items, the increase was 11.6 percent, and the municipality maintained a steady increase. Of this, the income of industrial enterprises was 622.17 million yuan, industrial and commercial tax revenue was 3,059.79 million yuan, agricultural tax revenue was 10.67 million yuan, and income earned by other fields was 122.81 million yuan. In the first half of this year, the municipality's expenditures reached 2,113.68 million yuan, accounting for 42.3 percent of the annual plan and showing an increase of 323.03 million yuan or 18 percent over the corresponding period of last year. The implementation of the budget plan in the first half of this year indicated that the municipality struck a balance between revenues and expenditures and had little surplus. The municipality had 2,281.74 million yuan of financial resources. Expenditures totaled 2,113.68 million yuan. Accounts showed a favorable balance of 168.06 million yuan.

Jilin Cracks Down on Speculation of Government Units

SK1009121588 Changchun Jilin Provincial Service
in Mandarin 2100 GMT 8 Sep 88

[Excerpts] Since the beginning of this year, the provincial Industrial and Commercial Administration Bureau has regarded the work to deal blows to government units' speculation as the focus of its economic examination activities and has concentrated efforts on investigating and handling a number of cases of reselling the means of production at profit in violation of law, thus effectively safeguarding social and economic order.

Because of the dual-track system currently applied to the prices of some materials such as diesel oil, chemical fertilizer, pesticides, plastic sheets, and seeds, some monopoly trades and departments use their power either to withhold the materials that they should distribute according to plans or raise the prices of the materials in a disguised manner and resell them, thus disturbing the market.

In May 1987 the Jiutai County branch oil company resold the 904.6 tons of diesel oil for agricultural use allocated to it by the state and distributed it to peasants who had signed purchasing contracts to the Jilin office of the Chinese Petrochemical Marketing Corporation at such a high price as 900 yuan per ton, while the government-fixed price was 360 yuan per ton. It illegally gained a profit of 93,000 yuan.

In the first half of this year, the provincial Industrial and Commercial Administration Bureau investigated and handled 443 major and serious cases of illegally reselling goods at profit, such as the aforementioned one, of which 304 cases, or 68.6 percent, were committed by state and collective enterprises and institutions.

According to statistics, the province discovered that 1,920.5 tons of rolled steel; 10,720 cubic meters of timber; 6,684 tons of diesel oil; and a great amount of chemical fertilizer, seeds, and plastic sheets had been resold by government units at profit in the first half of this year. It collected 3.263 million yuan in fines and confiscated funds, thus effectively dealing blows to the government units engaged in speculation.

Sichuan Leader Urges Decision on Three Gorges Project

HK2209015788 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 21 Sep 88

[Text] The CPPCC group inspecting Hubei and Sichuan arrived in the mountain city of Chongqing on 21 September. Gu Jinchi, deputy secretary of the provincial party committee; Li Peigen, vice chairman of the provincial CPPCC; and responsible comrades of the party, government, and army in Chongqing, including Sun Tongchuan, greeted the group at the quay.

In the afternoon, the leading comrades of the province and city reported to the inspection group on the Three Gorges project and other matters. Gu Jinchi said: The Three Gorges project, which affects the overall situation, is by no means an ordinary project. We will resolutely abide by the final decision of the CPC Central Committee and State Council. The fact that no decision has yet been taken on the Three Gorges project has too great an impact on construction on the upper Chang Jiang, especially in those areas scheduled to be inundated. We hope that an explicit final conclusion will be made as soon as possible, on the basis of scientific demonstration and proof. At the same time, when formulating a scheme and adopting measures, it is necessary to take account of the

interests of the upper and lower reaches of the river, and to take full consideration for Sichuan's economic development and for the stability and unity of the people in the reservoir area.

Gu Jinchi said that for the lower reaches to benefit and the upper reaches to suffer has been the actual case in China's water conservancy construction for many years. Can we change this situation into one by which both the upper and lower reaches benefit and get rich together? We hold that this is not only possible; it is also the way things ought to be. For this reason, we must first resolve properly and well the population movement problem in accordance with new ideas and guidelines. This is not only an economic but also a social problem, and an issue related to the success or failure of the project and to social stability. Second, Sichuan's extreme shortage of electric power must be fully considered. I propose that we should now get to work to exploit the hydroelectric resources on the upper Chang Jiang and on the Jinsha and Min. In addition, in the design and the future operational management of the Three Gorges project, it is necessary to simultaneously consider antiflood measures and navigation on the upper reaches, so as to give scope to the transport function of the Chang Jiang as the golden waterway.

Comrade Gu Jinchi also reported to the CPPCC inspection group on Sichuan's economic development and its problems that urgently need resolving.

Zhou Peiyuan, leader of the group, spoke at the meeting. He fully endorsed their achievements of Sichuan Province and Chongqing City in economic construction and reforms, and hoped that they will take further advantage of their strong points in abundance of talent and resources, to exploit the province's hydroelectric resources and do still better in economic construction and reforms.

Shanghai Major Economic Indexes Released

HK0709124988 Beijing CEI Database in English 7 Sep 88

[Text] Shanghai (CEI)—Following is a chart showing the synopsis of Shanghai major economic indexes in the first seven months of this year released by the Municipal Statistical Bureau.

	unit	1-7/88	percentage over 1-7/1987
1. total industrial output value	million yuan	59961	6.3
of which: light industry	million yuan	33390	7.0
heavy industry	million yuan	26571	5.6
3. freight volume	million tons	133	0.6
4. cargo handled in ports	million tons	77	2.9
5. investment in fixed assets of state-owned units	million yuan	6650	11.1

	unit	1-7/88	percentage over 1-7/1987
of which: capital construction renovation	million yuan	4166	6.2
total value of retail sales	million yuan	2374	23.1
of which: consumer goods	million yuan	16578	23.7
of which: food	million yuan	15609	23.7
clothing	million yuan	6334	25.7
daily-used goods	million yuan	2892	24.2
fuels	million yuan	6282	21.4
6. total value of exports	million U.S.	101	30.8
of which: light industrial products	million U.S.	2712	14.8
heavy industrial products	million U.S.	1704	13.0
farm and sideline products	million U.S.	573	33.0
7. total value of imports	million U.S.	435	3.2
8. utilization of foreign capital	million U.S.	1176	35.7
number of contracts signed	items	132	0.0
value of contracts signed	million U.S.	297	0.0
9. technology import			
contracted value	million U.S.	224	2.1
executed value	million U.S.	89	-41.7
10. overseas visitors	thousand person-times	489	22.6
11. total wages of staff and workers	million yuan	5641	23.2
12. per capita monthly wage of staff and workers	yuan	161	22.3
13. private savings in urban and rural areas	million yuan	14172	26.4

'Backbone Enterprises' in Shanghai Pilot New System

OW1809044788 Beijing XINHUA in English
0211 GMT 18 Sep 88

[Text] Shanghai, September 18 (XINHUA)—Fifteen backbone enterprises in Shanghai have been designated as "special factories" to pilot a new managerial system.

The enterprises are all to be given autonomy in production, management, pricing, foreign trade and wages policy, according to a municipal official.

They will be permitted to lease land, auction their assets, and dismiss workers on their own initiative, the official added.

The enterprises are in the light, machinery, chemistry and textile industries, have good economic records and have considerable export potential.

"The purpose of this piloting is to find out approaches for further unleashing productive forces of state-owned enterprises," said the official.

Shenyang To Sell Enterprise

OW2909041988 Beijing XINHUA in English
1507 GMT 28 Sep 88

[Text] Beijing, September 28 (XINHUA)—For the first time the government of Shenyang, capital of Liaoning Province, has decided to sell a collectively-run enterprise lock, stock and barrel to an individual, today's WORKERS' DAILY reported.

The enterprise is the light industrial motor repair factory, which has about 120 workers, a workshop of 2,200 square meters of floor space and 74 pieces of equipment.

The enterprise has been in debt to the tune of one million yuan since 1983, while earning only 580,000 yuan a year.

In the face of bankruptcy, representatives from the enterprise negotiated with the purchaser, Huang Bing, 48, head of the administrative section of a textile mill in the city, and settled the issue.

FINANCE, BANKING

Joint-Stock Firms Flourish in Zhejiang's Wenzhou

OW1709015688 Beijing XINHUA in English
1109 GMT 16 Sep 88

[Text] Beijing, September 16 (XINHUA)—More than 50,000 joint-stock enterprises have sprung up in Wenzhou, Zhejiang Province, since the latter half of last year, today's WORKERS' DAILY reported.

They involve transportation, construction, industrial, commercial and financial sectors.

Shareholders buy shares in cash, land, equipment, labor or managerial staffers, the paper said.

"In joint-stock enterprises, managers have become one with the owners of the means of production, enhancing the status of workers as masters of their enterprises," the paper said.

Of the 170 employees at the Dongfang Furniture Factory, 120 are shareholders.

Wenzhou, a port city open to foreign investment and trade, has 10 counties under its jurisdiction and covering some 10,000 sq km.

It has been cited as a national model for boosting the rural economy in China. It now has 140,000 factories run by families and individuals.

INDUSTRY

August Industrial Output Figures HK2909093188 Beijing CEI Database in English 29 Sep 88

Beijing (CEI)—Following is a chart of China's total industrial output value in August 1988, released by CSICSC (China Statistics Information Consultancy Service Center)

	(in 100 million yuan)		
	8/88	1-8/88	Comparison With 1-8/87 of Last Year
Total	1004.7	7751.1	117.10
Including:			
Light industry	498.1	3886.6	118.40
Heavy industry	506.6	3864.5	115.81
State-owned	633.3	5015.6	112.40
Collectively-owned	336.5	2495.1	124.57
OTHERS	34.9	240.4	156.00

(Industrial output value is measured in 1980's constant yuan)

FOREIGN TRADE, INVESTMENT

Beijing Exports More Garments Jan-Aug OW2909133888 Beijing XINHUA in English 1054 GMT 29 Sep 88

[Text] Beijing, September 29 (XINHUA)—Beijing exported 114 million U.S. dollars worth of garments in January-August this year, 32.5 percent more than the figure for the same 1987 period, hitting an all-time high.

Beijing garments go to more than 80 countries and regions, including Japan, the United States and West European countries, according to today's overseas edition of PEOPLE'S DAILY.

The exports include more than 80 categories made of cotton, woollen, linen, chemical and blend fabrics, including Western-style suits for men, women and children, pyjamas, jackets and trousers, and some of them are well-known on the world markets.

Beijing also makes garments with imported materials and undertakes the trade in the form of joint venture and compensation trade in addition to processing with clients-supplied materials.

Products made of imported materials are said to account for one-third of the total exported in terms of business volume.

Hebei Attracts Asian Investors

HK3009014388 Beijing CHINA DAILY in English
30 Sep 88 p 2

[By staff reporter Zhang Yu'an]

[Text] Tangshan City in Hebei Province setting its sights on Southeast Asia, and especially Singapore, in a bid to attract foreign funds to develop its economy, Vice-Mayor Wang Daming told CHINA DAILY recently.

Singapore, South Korea and Hong Kong have abundant funds to invest and the money available in Southeast Asia as a whole is out \$194 billion, according to Wang.

Singapore is "an upstart" and keen to invest, he said, and Tangshan, an important industrial city in Hebei Province, is keen to attract such investment.

He said his visit to Singapore earlier this year had shown him that most businessmen there were trying to decide whether to invest in China or Thailand. And some were now showing their interest in China as a whole and Tangshan in particular.

One Singapore company had already signed an agreement to invest in a joint venture to produce electronic products in Tangshan.

The people of Southeast Asia and the Chinese have similar ways of thinking, which help them understand each other and encourage the Southeast Asians to invest in China, Wang said.

Tangshan, devastated 10 years ago by a major earthquake, is a newly built industrial city.

It began to open to the outside world only in March this year, but is working hard to make up for lost ground, Wang said.

He said that Tangshan would concentrate on the development of its chemical industries with salt, coal and oil as raw materials and on the development of iron and steel.

The city has deposits of five billion tons of coal, four billion tons of iron ore, 700 million tons of limestone and 900 million tons of oil. Along its 196.5 kilometre-long coast line, is the Changlu Saltworks, one of the biggest saltworks in the country.

Last year, the city produced about 21 million tons of coal, 1.4 million tons of steel, 1.1 million tons of steel plate, 3.5 million tons of cement, 3.4 million pieces of pottery and porcelain ware and 12.2 billion kilowatt-hours of electricity.

The construction of a 5-million iron and steel works is now under consideration. Five electricity plants are being enlarged and reconstructed. A 600,000-ton soda plant is under construction and is expected to go into production next year.

Wang said that since the earthquake, the city had set up many new workshops. But much of the equipment and machinery is old, and renovation of the enterprises with foreign funds will bring rapid benefits and require little investment.

The city is also preparing to set up an area for the processing industry near Wangtan, where its biggest seaport is currently under construction.

Wang said there is a trend towards foreign investment moving to north China from the south because prices of land and labour are cheaper in the north.

Tianjin Enterprises Increase Exports
OW2809090688 Beijing XINHUA in English
0224 GMT 28 Sep 88

[Text] Beijing, September 28 (XINHUA)—Tianjin township enterprises are expected to have exports of about 1.3 Billion U.S. Dollars this year, about 15 times the 1978 figure.

Tianjin, a key industrial city in north China, has 526 township enterprises—including 16 Sino-foreign joint ventures—engaged in export production, which employ 80,000 workers. They export about 600 different types of product to 70 countries, including half the city's nail and wire exports.

The Tianjin authorities have said they will give greater power to township enterprises to conduct their own trade directly with foreign companies.

ECONOMIC ZONES

Fuzhou Economic Development Zone Grows
OW2609044888 Beijing XINHUA in English
0206 GMT 26 Sep 88

[Text] Fuzhou, September 26 (XINHUA)—Between January and August, the Fuzhou economic and technical development zone had exports of 15 million U.S. dollars, three times more than during the same period last year.

The zone now has some 30 foreign-funded enterprises and joint ventures involving Chinese investment from other parts of the country. Local officials said that foreign investment is increasing. Another 10 export-oriented enterprises are expected to be put into operation by the end of this year.

During the first seven months of this year, the zone in Fuzhou, capital of Fujian Province, signed 16 contracts with overseas investors with a total involvement of 350 million yuan including 80 million U.S. dollars of direct foreign investment, a local official said.

LABOR

Shaanxi Officials Discuss Labor System Reforms
HK1709023788 Xian Shaanxi Provincial Service
in Mandarin 0030 GMT 17 Sep 88

[Text] Zhao Baoyu, director of the Provincial Labor and Personnel Department, revealed yesterday at a provincial symposium on the labor market that Shaanxi will speed up reforms of the labor, wages, and personnel systems, centering on invigorating the enterprises.

Zhao Baoyu said that the core of reforming the labor system is to promote optimum labor combination and contractualized labor management. Shaanxi has initially decided to launch this work throughout the province this year and next. At the same time, we will cautiously and actively organize pilot project work in turning permanent workers into contract workers. In wage reforms, we should strive by yearend to have 60 percent of large- and medium-sized enterprises linking the total wage bill to economic returns, and to make such a practice universal in the province in 2 or 3 years. Within the enterprises, the main focus should be on promoting the piecework and quota wage systems. The orientation for personnel work reforms is to put into effect the system of appointing cadres.

The symposium was held in Xian from 14 to 16 September. The meeting summed up the situation in establishing a labor market in the course of reforming the labor system, and studied measures for further cultivating and developing a socialist labor market.

Shaanxi was the first place in the country to establish a labor market, but progress in this undertaking has been difficult and slow, and we are still in the very early stage. Xian City established a labor market, under leadership, in 1984. This was a pioneering move in the whole country at the time, and was endorsed by Comrade Zhao Ziyang. Later, the Ministry of Labor and Personnel convened a meeting in Xian to popularize the city's experiences in establishing a labor market.

However, this work has been done only slowly and half-heartedly in Shaanxi. Today, when labor markets are developing vigorously and gradually advancing toward being soundly based in many provinces and cities, only Xian, Baoji, and Xianyang cities in Shaanxi, together with 10 counties and districts of Xian City, have set up comprehensive labor markets. Weinan, Shangluo, Yulin, and Tongchuan prefectures and cities have set up exchange centers only for technological cadres and workers. In addition, only some 20 counties and cities have

promoted labor export. The general state of labor market work lags behind the demands of deepening the reform and behind the situation in the whole country.

The province's performance in starting early and then making only slow progress in cultivating and developing labor market work has attracted the attention of the leaders and departments concerned.

Vice Governor Wang Shuangxi said in a speech at the symposium yesterday that developing a labor market is a component part of reform of the labor system and is the objective demand of establishing a new order of socialist commodity economy. He stressed that the government at all levels must tangibly strengthen leadership over the labor market, stimulate changes in the concepts of labor and employment, and rapidly catch up with others in establishing labor markets throughout the province.

Relationship Between Wage Reform, Production Discussed

40060021 Shanghai

SHIJIEJINGJIDAOLAOin Chinese 5 Sep 88 p 2

[Article by Beijing correspondent Yang Xiaolin 2799 1420 2651: "Reform Must Break With the Wage Model of the Production Economy"]

[Text] Why is it that in 9 years, when increases in wages alone amounted to over 130 billion yuan not counting investment in housing and huge sums in support of commodity prices, it was still not possible to effectively raise production enthusiasm, improve production forces, and enhance labor quality? In the opinion of He Tianzhong [6320 1131 0022], senior research fellow of the State Labor Science Research Institute of the Ministry of Labor, the source of the evil is that past reforms have not broken with the wage model of the production economy. In the centralized control of wage readjustments and of reforming by mechanically applying one overall formula, there was no escaping from the confines of egalitarianism.

The present wage reform, which has the close attention of the whole nation, has entered the stage of "final assault." Since one is prepared to take risks, it will indeed be a great qualitative change. Otherwise, it would not only be of little help for the development of the productive forces but, on the contrary, would hamper the success of price reform.

As an introduction, He Tianzhong said, in the selection of a strategy for wage reform there are now on the whole three alternatives. The one that is dominant would base action on increasing the payments for living expenses of staff and workers after subsidized prices have been raised without giving any attention to reforming the distribution system and the operational machinery. The principle contents of the problem is how to find ways to

continue the commodity price subsidy system and how to raise wage standards at the proper time and have part of the staff and labor force promoted to higher positions. The second alternative holds that, since we do not yet have a perfect market mechanism, it is necessary under the present, serious economic conditions of big investment, inflated consumption funds, and currency inflation to strengthen the centralized system of state power, take back all distribution powers that had been delegated to the enterprises, and stop linking total wages to economic results. The third alternative is the proposal to move from proportionate control by administrative means to regulation by taxation and market forces.

As to the first two proposals, He Tianzhong considers them to actually be nothing but the normal arrangement under the system of macroguidance of wage distribution and under the original operating mechanism within the system of production economy. Although the proposals also advocate continued expansion of the linkage between wages and economic results, they do so merely as a way to spend less money and not to create the external conditions for linkage. Even if the measures will serve their purpose and, for a time, smooth out wage relations, the state would have to continuously and without respite centrally control the wage arrangements, thus continuously "drawing fire against itself." The last alternative is correct in giving full consideration to the market and the self-restraining mechanism of the enterprises. Reliance on centralization only cannot solve the imbalance with some suffering adverse circumstances and some enjoying happy circumstances or short-term action. Actually, salary increases in enterprises where salaries had been linked to economic results were less than in enterprises where no such linkage was practiced. The rapid wage increases of 1986 were precisely due to the centralized wage standards in state enterprises and the wage adjustments by mechanically applying one overall formula.

In He's opinion, the core of the wage problem is how to determine the wage level, which is a constant difficulty in socialist countries, and which has also not been solved appropriately in China. During the first half of this year, GNP rose 11 percent over the same period last year, labor productivity rose at an almost double digit rate, while commodity prices rose 14 percent, and average actual wages to staff and workers were increased by less than 1 percent, merely remaining equal with wages during the same period last year. Is that on a par with the principle of "increasing wage income according to the rise in productivity?" The reason is that the abstract principles under production economy cannot effectively restrict policy decisions where there is centralization of power and control by single individuals. As to levels of wage increases and a system to determine such, there is never any regularity, standardization, or any reliable data for the relationship between production increases and wage increases, nor standards for quantitative determination and assessment. At the same time, it does not, in principle, differentiate between wage increase levels according to differences in economic development of

regions and enterprises but makes it only one big nationwide stew for several decades. He emphasized that divorcing methods from the economic effects of enterprises and of staff and workers, who are the subjects of production, but leaving it to government functionaries, from top to bottom, to declare that they will guarantee that living standards of staff and workers will not be lowered, is in theory and in practice a matter that is rather debatable.

He Tianzhong agrees with the third alternative. He believes, under the new order of the socialist commodity economy, a new wage distribution system and operational mechanism will have the special characteristics of enterprise autonomy under market regulation and individual ownership of labor. First of all, one must courageously transfer autonomy for distribution and responsibility for risks to enterprise staff and workers. One must change from having the state undertake everything to having the enterprises and staff and workers themselves—under the macroguidance of the government—raise economic results and solve the problem of attaining a state of being comfortably well-off and even prosperous. Enterprises and staff and workers should have the power to participate in policy decisions on distribution, also the power in their own right to effect changes and to contend for appropriate incomes.

9808

July Labor Productivity Shows Increase

HK2909093788 Beijing CEI Database
in English 29 Sep 88

Beijing (CEI)—Following is a chart of labour productivity of state-owned enterprises with independent accounting in July, 1988, according to csisc. [China Statistical Information and Consultancy Service Center]

	Unit	7/88	7/87
Industry	YUAN/PERSON	1479	1387
INCLUDING:			
Light industry	YUAN/PERSON	1897	1795
Heavy industry	YUAN/PERSON	1266	1183

August Employment Figures Released

HK3009093988 Beijing CEI Database
in English 30 Sep 88

Beijing (CEI)—Following is a chart of employment in China in August this year released by CSICSC. [China Statistical Information and Consultancy Service Center].

	(IN 10,000)		
	87.8	88.8	Comparison in percentage
Total	13174.90	12822.30	102.75

	(IN 10,000)		
	87.8	88.8	Comparison in percentage
1.State-owned units	9635.10	9350.30	103.05
including:			
Permanent workers	7521.80	7472.80	100.66
Contract workers	764.20	571.10	133.81
2.Other kinds of	77.70	59.60	130.37
ownships			
3.Collectively-owned	3462.10	3412.40	101.46
units			
self-employed	586.30	502.50	116.68

TRANSPORTATION

Foreign Loans To Fund Railway Projects

OW2609172488 Beijing XINHUA in English
1554 GMT 26 Sep 88

[Text] Beijing, September 26 (XINHUA)—China has received a loan of 200 million U.S. dollars from the World Bank and another of 100 billion Japanese yen (about 800 million U.S. dollars) from the Japanese Government for its railway construction.

The loans will be used to undertake eight railway projects, the Ministry of Railways announced here today.

These will include double-tracking and electrifying a railway between Jiaozuo, a coal mining center in Henan Province, and Zhicheng in Hubei Province, and building a railway between Nanning, the capital of the Guangxi Zhuang Autonomous Region, and Kunming, the capital of Yunnan Province.

China has so far attracted nearly three billion dollars in foreign loans for railway development.

Auto Makers Urge Curbing Influx of Imports

OW2209121288 Beijing XINHUA in English
0858 GMT 22 Sep 88

[Text] Beijing, September 22 (XINHUA)—China's auto makers today appealed to the government to curb the large-scale influx of imported cars, minibuses and trucks.

A spokesman from the China Automotive Industry Corporation said, "The whole of society should watch this closely and the government should take measures to tighten control."

He noted that the country should no longer have to spend a large amount of foreign currency to import motor vehicles.

To support China's automotive industry, the State Council made a decision last year to tighten control on imports of cars, tourist coaches and buses, and encourage customers to use China-made products.

But recently, some regions and departments, especially those which hold decision-making powers over use of foreign currency, have asked for more imports of foreign products, according to the corporation.

Tourist agencies alone want to import 1,700 cars and tourist coaches and buses this year, and 7,500 in the coming three years.

There are over one million imported cars, jeeps, buses and trucks in the nation. Most of them were imported between 1983 and 1986. Many of them will be discarded or need repairing in the next year or the year after.

The city of Beijing needs about 2,000 cars and other automotive products for the 11th Asian Games in 1990 to accommodate more than 10,000 visitors.

Although it is two years away, Japanese auto salesmen have already begun presenting cars as a gift to some customers in a bid to edge their way into the market.

The spokesman warned "We will not let imported products affect China's automotive industry, while the domestic market should rely on the national industry and the Chinese customers should help develop it."

China has imported advanced technology for manufacturing cars, light trucks, tourist coaches and jeeps, and launched cooperative production with foreign firms, he added.

As a result, he said, both technology and product quality have been improved, with some products even being exported.

"We have enough capacity and technology to provide various kinds of products," he declared. He listed favorable developments as follows:

The Red Flag Limousine, which stopped production for several years, will roll off the production lines again soon with a new look;

The annual output of the Shanghai-Santana Sedan will grow to 15,000 this year;

The No 1 Automotive factory in Changchun will turn out 3,000 Audi-100 cars next year; and

Tianjin will manufacture 5,000 cars with CKD of Japan next year.

Meanwhile, Guangzhou is producing Peugeot cars while Wuxi is manufacturing Sanos Tourist Buses.

According to the corporation, China is also speeding up construction of three car-producing bases in Shanghai and two other cities.

AGRICULTURE

Anhui Hog Output

40060045a Hefei ANHUI RIBAO in Chinese
24 Aug 88 p 1

[Excerpt] In the first half of 1988, the number of hogs raised in Anhui Province was 13,301,500, a 1.83 percent increase over the same period in 1988. The number of sows in stock was 766,300, a 14.3 percent increase; and pork output was 369,000 tons, a 3.5 percent increase.

Hebei Water Storage

40060031e Shijiazhuang HEBEI RIBAO in Chinese
21 Aug 88 p 1

[Excerpt] As of 20 August, large reservoirs in Hebei Province held 5.177 billion cubic meters of water, an increase of 2.475 billion cubic meters over the same period in 1987.

Heilongjiang Wheat Output Declines

40060031d Beijing JINGJI CANKAO in Chinese
7 Sep 88 p 2

[Excerpt] In 1988 estimated gross output of wheat in Heilongjiang Province is 2.35 billion kilograms, a decrease of 650 million kilograms from 1987; estimated procurement is 650 million kilograms, a decrease of 490 million kilograms from 1987. In 1988 the area sown to wheat was 19 million mu, a decrease of 8 million mu from the area planned at the beginning of the year, and a decline of 4,380,000 mu from 1987.

Hunan Ramie Area, Output

40060045b Changsha HUNAN RIBAO in Chinese
9 Aug 88 p 2

[Excerpt] This year Hunan Province has sown over 1.9 million mu to ramie, and output is expected to reach 190,000 tons. In addition, Hunan has about 300,000 tons in stock, but the volume needed for domestic use and for export is only 180,000 tons.

Inner Mongolia Wheat Output

40060036d Beijing JINGJI RIBAO in Chinese
21 Sep 88 p 2

[Excerpt] This year gross output of wheat in Inner Mongolia was 1.65 billion kilograms, an increase of more than 400 million kilograms over 1987. Estimated gross output of grain for Inner Mongolia in 1988 is 6.5 billion kilograms, an 8 percent increase over 1987.

Jiangxi Cotton Area

40060036b Nanchang JIANGXI RIBAO in Chinese
23 Aug 88 p 1

[Excerpt] In 1988 the area sown to cotton in Jiangxi Province was 960,000 mu, an increase of 20,000 mu over 1987; however, 75 percent of the cotton area is drought-stricken.

Jiangxi Fertilizer Shortage

40060036c Nanchang JIANGXI RIBAO in Chinese
23 Aug 88 p 1

[Excerpt] Because of raw material shortages for chemical fertilizer in Jiangxi, this year the province has purchased more than 600,000 tons of chemical fertilizer from various regions throughout China. But because chemical fertilizer prices have increased in the international market, the sales price for each ton is about 1,200 yuan. As a result, fertilizer sales have been poor.

Jiangxi Grain Storage

40060036a Nanchang JIANGXI RIBAO in Chinese
7 Sep 88 p 1

[Excerpt] As of 25 August, Jiangxi Province had put 920 million kilograms of contracted grain in storage, fulfilling 46.1 percent of the task; and 120 million kilograms of negotiated grain.

Sichuan Rural Loans

40060036e Beijing JINGJI CANKAO in Chinese
29 Aug 88 p 2

[Excerpt] In the first half of 1988, people-to-people loans in rural areas of Sichuan Province totaled 1.8 billion yuan, a 41 percent increase over the same period in 1987, and was 220 percent more than bank and credit cooperative loans. People-to-people loans have increased because: 1) peasant per capita cash income in the first half of 1988 was 201.7 yuan, a 25.5 percent increase over

the same period in 1987. Two, peasant savings have declined. Because of price hikes, most peasants feel interest rates on savings are too low. In the first half of 1988, peasant per capita savings in banks and credit cooperatives was 9.56 yuan, a 5.8 percent increase over 1987; however, the rate of increase in 1987 over 1986 was 53.48 percent. In the first half of 1988, on average, peasants had 55.25 yuan worth of cash on hand, a 33.6 percent increase over the same period in 1987. Three, it is difficult for peasants to obtain loans. In the first half of 1988, per capita peasant loans were 6.36 yuan, a 1.45 yuan decrease from 1987.

Sichuan Pork Prices

40060045c Beijing JINGJI CANKAO in Chinese
1 Sep 88 p 2

[Excerpt] In the first half of 1988, rural households in Sichuan Province, on average, consumed 48.14 kilograms of pork, a decrease of 9.36 kilograms, or 16.28 percent from the same period in 1987. The major reason for the decline is increased pork prices. From January to June, the sales price of pork in rural areas of Sichuan was 3.71 yuan per kilogram, an increase of 1.20 yuan, or 47.81 percent over the same period in 1987. In addition, peasants are selling more pork.

Yunnan Rural Loans

40060031f Kunming YUNNAN JINGJI BAO in Chinese
3 Aug 88 p 3

[Excerpt] In the first half of 1988, Yunnan Province provided 1.248 billion yuan in agricultural loans, an increase of 32.7 percent over the same period in 1987. In addition, over 4 billion yuan in loans were provided to support rural circulation links; of this amount, 1.6 billion yuan was used to procure agricultural and sideline products, an increase of 56.9 percent over the same period in 1987. And 603 million yuan in loans were provided to support town and township enterprises, a 49.2 percent increase over the same period in 1987.

**Leaders Hold National Meeting on Studying,
Applying Law**

*OW1709071388 Nanchang Jiangxi Provincial Service
in Mandarin 1100 GMT 13 Sep 88*

[Text] A 4-day national discussion meeting on studying and applying law by a number of prefectural leaders and city mayors ended in Jiujiang 12 September. Leading members of 53 large and medium cities in various parts of the country and several leading cadres of the province attended the meeting.

Wu Guanzheng, governor of Jiangxi; Jiang Zhuping, vice governor of Jiangxi; and Wang zhaorong, member of the Standing Committee of the Provincial Party Committee, attended the opening ceremony.

Minister of Justice Cai Cheng attended and spoke at the meeting. He fully affirmed the situation of popularizing law throughout the country during the past three years and pointed out that at present our country is in a period of transition from production economy to commodity economy. During this period, various problems have emerged, such as the existence of the two-tier price system, unbridled buying and reselling of commodities for profit, speculative activities, wanton raising of prices,

illegal collection of fees, fraud and evasive action in tax matters, seeking profits by units through abusing their power, bribery, regional blockades, setting up economic obstacles by some units, wantonly imposing fines, producing fake and inferior quality commodities, increase of economic crimes, and revival of gambling and other evil activities. The emergence of those undesirable things has shown us that it is quite urgent and necessary to establish a new order for commodity economy. Administering cities according to the law is a necessary requirement for establishing a new order for commodity economy at present.

Cai Cheng said: Starting next year, our country's reform of the economic structure will enter a crucial period in achieving final success. Party and government organizations and leading cadres at various levels must consciously abide by law in their activities. We should formulate policies, perform official duties and administer various affairs in accordance with the law. We should use law as a means to adjust various economic relations and establish a new order for economy order so as to promote the further opening of cities and the development of commodity economy. We should build our cities into civilized cities with good order.

Reports of Damage to Defense Equipment
HK2809142288 Beijing ZHONGGUO QINGNIAN BAO
in Chinese 20 Sep 88 p 3

[Letter from Zhang Jun 1728 6511 and Chen Li 7115 0500 of a certain PLA unit stationed in Qingdao: "It Is Shocking That National Defense Equipment Is Stolen and Damaged in This Way"]

[Text] This year, military equipment and facilities belonging to PLA units stationed in Qingdao, and combat units in particular, have been stolen and damaged. The situation is fairly serious and has hindered necessary combat training. According to incomplete statistics, by the end of August the number of personnel assigned by various units to repair the damaged facilities and equipment was a dozen times that of normal times, and several million yuan was spent on the project. This serious situation remains unchanged.

In the second half of August when we made an investigation at a certain combat flight regiment, it was shocking to discover that an electric cable room, which is a center for telecommunications command, had been burgled twice since March. Electric cables, 70 to 80m in length and valued at more than 6,000 yuan, were stolen. Equipment, diesel, gasoline, and so on, to be used for generating electricity in critical conditions, was also stolen. Although measures were taken to reinforce the generator room, people are still worried about the possibility that burglary might happen again. The condition of various kinds of lighting equipment and facilities which ensure safe landing at night was even worse. Some 140 lamps had been stolen and about 130 were damaged. The flight regiment lost 10,000 yuan because of this. Sometimes there was only one landing light available. There was not enough time for the unit to repair the lighting facilities. Some pre-planned training courses were cancelled for this reason. Some airplanes, which had originally planned to land at the regiment's airfield were compelled to change their landing plans. To meet the demand to fulfill important tasks at night and to provide necessary combat training, the flight regiment was compelled to use barn lanterns, which had been used during the War of Resistance Against Japan, to replace the modern night-landing lighting equipment. Protective facilities such as hangars were also severely damaged. What was more shocking was that on 20 August this year, a hole 30cm in length was dug in the main runway, despite the fact that the runway is regarded as the lifeline of a flight unit. This endangered the safety of aircraft landing. After investigation we discovered that those guilty of stealing and damaging the facilities were mostly residents living near the barracks. Some of them were workers, individual peddlers, youths waiting for employment, students, and a small number of vagrants from other places. Their aims in doing so were different. Most of them sold the stolen goods in order to make money. Some stole the equipment from the PLA units just for fun. There was a small number of bad people who had ulterior motives. Some salvage stations rarely asked

from where the "waste products" came. We have learned that some factories, mines, and enterprises have not provided their members with education in national defense for over 10 years.

We believe that during the years of economic development we should particularly increase our people's consciousness about national defense. At present our national defense expenditure is far from sufficient. It is the duty of everyone to build a modern army. Borrowing a corner of your newspaper we would like to shout: It is an urgent task to increase the national defense consciousness of our citizens!

Training Regulations for Armored Units Tested
40050381c Beijing JIEFANGJUN BAO
in Chinese 1 Jul 88 p 2

[By Han Zonghua 7281 1350 5478 and reporter Dong Xiangqi 5516 4382 6386]

[Text] The "Armored Units' Military Training Management Regulations (Trial Draft)," which has been gestating for more than 2 years, was recently born in a certain tank division of the Jinan Military Region. At a discussion meeting on the management of armored units training, which was held 8-10 June, professionals from the organizations of the Armored Force Department of the PLA General Staff Department and the armored units of the Jinan Military Region fully affirmed the "Regulations" and evaluated them fairly high.

Proceeding from the characteristics of the military training of the armored units, and in line with the rules and regulations of the outline manual, the "Regulations" apply modern management training and sum up the experiences in practice of the entire PLA in military training management, especially that of the armored units. The "Regulations" clearly stipulate the duties in the military training of the service arms of all levels of senior officers, organizations, cadres, and rank-and-file soldiers; the content and procedures of training; the plans, organization, methods, and demands for examination and assessment; the scope, conditions, and standards of rewards and penalties; the principles and methods of training support; as well as the data and management of training.

Last year the Armored Force Department of the General Staff Department gave the task of uniting and testing armored unit training management to this division. On the original foundation, the division again carried out studies, demonstrations, and revisions, and within the scope of the entire division it conducted wide-ranging experiments. The results of the experiments showed that organizing and conducting training in accordance with the "Regulations," first, enhances the regularization of military training; second, it closely links the training situation with the responsibilities, powers, and interests of the units and the individuals, rewards the superior and penalizes the inferior, and thus enhances the vitality

and vigor of training and promotes the overall implementation of military training; and third, it organizes and conducts the training of all levels of leaders and all types of personnel strictly in accordance with the "Regulations," insures that all "components" of the training support mechanism operate in coordination, and improves training results.

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Group Army in Nanjing MR Centralizes Logistics Training

40050381b Beijing JIEFANGJUN BAO in Chinese
19 Jul 88 p 2

[By Tang Fen 3282 1164 and Li Jingsen 2621 2533 2773:
"Logistics Specialized Training Moves Toward Base Training and Regularization"]

[Text] The state of affairs in which logistics specialized training is "small, dispersed, and deficient" has been changed by a certain group army of the Nanjing Military Region. They broke away from the old patterns of "cutting things up into bits and pieces" and making them "small but complete." They reformed and perfected the training system. With the group army as a big training system, they effected specialized division of work and coordination, and gradually moved toward making training base-training and regularized training. This year the troops assigned to all trades and professions in this group army's logistics, after finishing the training in coaching regiments, at the end of June were put into the training base for training.

Improving the quality of logistics specialists is an important link in improving the capability for modernized operations support. When the leaders of this group army's logistics department went to the units to investigate, they discovered that, because the training system was not perfected and its mechanisms were not sound, the specialist training was in a state of "sparrow warfare" and "guerrilla warfare." First, it was "small." The training of some logistics specialists still followed the training pattern in which the division or brigade is made the unit, the training is cut up into bits and pieces, and "each one fights in its own way." For example, in driver training each division or brigade would separately make a fresh start, the investment was large, and the period of time before taking up one's post was long. Second, it was "dispersed." The divisions, regiments, and battalions engaged in concentrated training level by level; the setup was dispersed; and it was difficult to insure sites, equipment, instructors, and funds. Third, it was "deficient." For many specialists there were no training organizations within the group army that were geared to their specialties, and only a limited number could be trained by the higher level's training organizations, causing a situation in which the troops had no plan to train, trained very little, were deficient in training, and were

sent to their posts without being trained. These phenomena were fairly widespread. This "small, dispersed, and deficient" state of affairs in training seriously affected the improvement of the quality of logistics specialists.

Following the deepening of reform, this group army decided to reform and perfect the logistics training system and to make the training organizations sound. They established the concept of large-scale social production and effected specialized division of work and coordination in training. Taking the group army as a large-training system, each division and brigade is a subsystem. Overall plans were made, arrangements were unified, and the superiorities of existing logistics specialized training organizations in divisions and brigades were displayed, training in one or two specialties was undertaken separately, and responsibility was taken for training specialists of the same kind throughout the group army. Since last year, this group army has set up five training bases, including drivers, quartermasters, and repairmen training bases. Each base now has an instructor contingent of fairly good quality, a sound training system, and primary-scale teaching facilities. Thus they changed the state of affairs in which "sparrow warfare" and "guerrilla warfare" were practiced for many years in the training of the 5 major works (repair work, hydropower work, painting, lathe work, and benchwork) and of the 6 major personnel (medical personnel, ordnance personnel, storage personnel, driver personnel, provisioning personnel, and mess personnel, and headed for the track of having the training done at bases and making the training regularized. For example, at a motor vehicle driver training base set up by a certain division last year, financial resources were concentrated on the purchase of advanced teaching equipment and outstanding drivers were selected to act as instructors. Also, audio-visual means of education are widely used and simulation driving is conducted. The base has achieved a situation in which the year that the drivers train is also the year that they are released from solo duty.

At the quartermaster training base, nine training teams, including company quartermasters, provisioning personnel, mess personnel, military supplies storekeeping personnel, and stockmen teams, was set up. In training company quartermasters alone, 43 training classes are run in one year and the more than 700 newly appointed company quartermasters in the group may receive one session of rotational training while on the job. This training base also trains ranking cooks and mess workers, and now 70 percent of the companies have a ranking cook.

Making the training of logistics specialties a matter of training in bases has effectively improved the logistics support capability of this group army. Last year, in the major tasks in combat-readiness and emergency disaster relief exercises of a test nature, this group army completed its support missions in outstanding fashion.

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PLA Navy Commander Discusses Long-Distance Navigation Training

40050381a Beijing RENMIN RIBAO OVERSEAS
EDITION in Chinese 1 Aug 88 p 2

[Article by Chen Shungen 3088 7311 2704: "The Capability for Long-Distance Navigation Is an Important Indicator of Seagoing Combat Effectiveness—Interview With People's Navy Commander Zhang Lianzhong"]

[Text] After the eighties began, warship formations flying the "August 1" ensign left wake after wake in the Pacific Ocean and the South China Sea which were the focus of world attention and which aroused the interest of many figures at home and abroad. Why did they go to the high seas for long-distance navigation training? To what level has long-distance navigation training developed? What is its connection with modernization? What important significance does it have for the building of the Navy? We brought these questions with us when we interviewed Navy Commander Zhang Lianzhong [1728 6647 1813].

Long-Distance Navigation Training Is Heading for High-Level Development

Commander Zhang, who had been a submarine captain, in the seventies sailed his submarine into the western Pacific for a long-distance navigation training exercise that lasted 30 days. Therefore, when talking about long-distance navigation training his feelings run deep. He told us with high enthusiasm that the Navy's long-distance navigation training is a process of developing from a low level to a high level.

In the 20 years before 1979, not many of our Navy's vessels went into the Pacific. Since 1980, in only 7 or 8 years' time, the number of long-distance navigations has more than doubled over the number in the past more than 20 years. Every year about a dozen to several dozen vessels take part. Not only was the scope expanded, but so was the training content. At the beginning it was mostly a case of long-distance navigation of single ships and single ship types, with navigation relationships made primary. The focus was on training ship captains in the skills required to navigate and operate ships. The training gradually developed into tactical joint training in which formations of many types of ships and many arms took part. In 1985 the North Sea Fleet organized ship formations that rushed to the western Pacific and conducted tactical two-sided training in which all arms took part. Without knowing how long a time and how many topics, attention was paid to training ship captains in navigation and operations skills; prominence was also given to tactical two-sided training, and more stress was put on improving the capability of formation commanders in seagoing command posts for decision making and command. This shows that there has been a marked improvement in the seagoing combat effectiveness of our People's Navy, and that long-distance navigation training is heading for a high level of development.

Long-Distance Navigation Training Is a Demand of the Times

"Our policy is offshore defense. Why must there be long-distance navigation on the high seas?" The commander answered with a smile: "The nature of China's socialism and its policy of peace in foreign affairs determines that China's Navy is of a defensive nature. To be able to truly and effectively protect China from attacks and offensives from the sea, the Navy must enhance its defensive depth at sea, and possess the capability to intercept and destroy the enemy's naval forces." The commander then stressed to us the necessity of long-distance navigation training, and emphasized three points:

When the Navy was founded, the idea was put forth that the Navy "has its home at sea and is a visitor on shore," namely, that the Navy should go out to sea to build up its combat effectiveness. Naval vessels are highly mobile and their operational radii are large. The mission and the special nature of the Navy's arms demand that we train sailors on the high seas. Second, long-distance navigation training is also an inevitable trend and important process in the development of the military training of naval units. Naval vessels usually first train hard at shore and in port, and then refine their training at sea. In line with the training outline's demands, they complete the basic topics and conduct vessel tactical training before they conduct long-distance navigation training. Through long-distance navigation training, the units capability to operate and survive at sea is constantly improved. Third, in a period of peace the Navy is a manifestation and a symbol of national strength. We will never forget that imperialism invaded China seven times from the sea. Our nation suffered immensely because our seas were not defended. This history must never be repeated. To protect the security of China's adjacent seas and to deal with sudden incidents that occur at sea, the People's Navy must train its sailors on the high seas, and must become able to survive at sea for a long time and build up its combat effectiveness at sea.

Going Out to the High Seas Has Been the Aspiration of Several Generations

"In the eighties long-distance navigation has developed. What has the Navy's leadership organizations done in this respect?" Commander Zhang replied, "Our first step in long-distance navigation was not easy, but going out to the high seas to train sailors has been the aspiration of several generations."

Commander Zhang first of all said that all previous leadership groups of the Navy, particularly Commander Liu Huaqing [0491 5478 3237] and Political Commissar Li Hui [2621 6540], paid special attention to long-distance navigation training. Every year, in the assignment of missions, the examining and approving of the long-distance navigation plan, the management of measures to insure safety, and the support in funds for

equipment and materiel—they took up all these matters personally. The good situation today in long-distance navigation training cannot be separated from their hard work and struggle.

To create favorable conditions for long-distance navigation, beginning at the end of the seventies the Navy's leadership organizations have concentrated their forces on solving the big problems connected with the equipment for long-distance navigation: sea supply, long-distance communications, and global navigation systems. In those years for our naval vessel formations, no matter whether in the Antarctic sea area, Pacific Ocean, or South China Sea or in the visit to three countries in South Asia, the seagoing supply, communications, and navigation have been very smooth.

The deepening of training reform since the beginning of this year has created favorable conditions for the development of long-distance navigation. After the naval vessels are given classification training, some of them in peacetime mainly engage in combined arms training and long-distance navigation training; some of the naval vessel systems complete individual ship topic training; and still others naval vessels are put into shipyards for repair. This reform has further enhanced the units' basic training.

Long-Distance Navigation Has Strengthened the Navy's Modernization

"Commander Zhang, after the Chinese Navy went out to the high seas, there was a lot of comment by foreign strategists, and their interpretations were different. How do you see it?"

Commander Zhang, lighting a cigarette, said with a smile: "Everybody's judgment is his own business. Each one has his own view. In the past we didn't go out to the high seas very much, and they could not see the 'August 1' ensign on the high seas. But now they see it. It is

something novel. Actually the navies of all countries conduct long-distance navigation training. The name of open seas is open, and everybody can go out to them!"

Commander Zhang then said that the long-distance navigation training of the Chinese Navy has already taken an important step with very great results. Its effect on building the Navy is also far-reaching. Through long-distance navigation we not only have completed some missions for scientific research and for making calls, but also have become familiar with the situations in sea area hydrology and meteorology, have improved the capability of a large number of ship captains for navigation and operation, and also have improved the tactical and command ability of seagoing formation commanders. The units also were highly tempered, a tempering that cultivates habits suited to living at sea for long periods, and a tempering that cultivates a spirit of bearing hardships and of being brave and indomitable. Long-distance navigation makes the strictest tests on equipment. Experiences in using, taking good care of, and maintaining equipment have been accumulated; and confidence in Chinese-made equipment has been heightened. All of these things cannot be obtained by offshore training.

Long-distance navigation has also promoted the development of the Navy's military academic theory, and has become a "hot topic" in the academic studies of the Navy's middle- and high-level cadres. Also, the results of research are used to guide training on the high seas, so that training develops in breadth and depth. Therefore, it promotes and accelerates the building of seagoing combat effectiveness.

At the end Commander Zhang said firmly that the capability for long-distance navigation is an important indicator of seagoing combat effectiveness. Long-distance navigation training must be strengthened and must never be weakened. There is a great deal of hope in going out to the high seas to fight in the strong waves and train crack sailors.

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EAST REGION

Li Farong Report to Shandong Discipline Inspection Commission

40050390 Jinan DAZHONG RIBAO in Chinese
21 Apr 88 p 2

[Excerpts of speech by Li Farong 2621 4099 2837 to the seventh enlarged plenary session of the Shandong Provincial Discipline Inspection Commission: "Strengthen the Work of Discipline Inspection in the Course of Reform and Opening to the Outside World"; date not given]

[Text] The main item in the agenda of this enlarged plenary session is to learn from the spirit of the 2d Plenary Session of the 13th CPC Central Committee and the 2d Plenary Session of the Central Discipline Inspection Commission, to translate this spirit into action, and to study the way to strengthen the work of discipline inspection in the course of reform and opening to the outside world. In his report to the 2d Plenary Session, Comrade Zhao Ziyang expressed important views on implementing the spirit of the 13th CPC Congress by further emancipating the mind, stabilizing the economy, intensifying the reform, and strengthening party building. To further clarify the orientation of work for the whole party, Comrade Qiao Shi [0829 4258] particularly emphasized in his report to the Second Plenary Session of the Central Discipline Inspection Commission the need to proceed from the task of party building during the new period in order to better grasp the ideology and the general and specific policies guiding the work of discipline inspection under the new conditions of reform and opening to the outside world; and the need for the whole party to strengthen the concept of disciplinary, to carry forward the Party's three major work styles, to enforce party discipline strictly, to strengthen the work of discipline inspection, and to improve the Party's work style. All these tasks are of great significance for the work of discipline inspection in further implementing the spirit of the 13th CPC Congress, and in better serving the party's basic line.

I. Firmly Uphold the Guiding Ideology of Serving the Party's Basic Line in Discipline Inspection Work

The 13th CPC Congress pointed out: "Since party building has always been closely connected with the party's basic political line, all party work in the new period must ensure the implementation of that line." Therefore, the work of party discipline inspection must ensure the implementation of the party's basic line as its starting point as well as its end result. The discipline inspection commissions and the broad masses of discipline inspection cadres at various levels in the province have become more and more aware of this guiding ideology, and have accordingly done a great deal of work, and with great success, in improving the Party's work style, enforcing party discipline, maintaining the Party's four cardinal principles, ensuring the implementation of the Party's

basic line and its general and specific policies, and safeguarding and supporting the reform in its smooth progress. However, along with the developments in the reform and the policy of opening to the outside, the way of thinking, the understanding of the reform and the policy of opening to the outside, and the style and methods of work among some comrades in the discipline inspection ranks are inconsistent in varying degrees with these developments. That is why we have to study the documents of the 13th CPC Congress intensively, learn from the spirit of the 2d Plenary Session of the CPC Central Committee and the 2d Plenary Session of the Central Discipline Inspection Commission, and make greater efforts to overcome conservatism on the basis of realities. We must also overcome the concept of confining ourselves behind closed doors and the other "leftist" influences, and be better aware that discipline inspection must serve the party's basic line.

In order that discipline inspection can serve the party's basic line, we must strongly advocate the use of productive forces as a criterion for evaluating our way of thinking and our work. Discipline inspection commissions and cadres at all levels must at all times uphold this criterion, and give full play to their functions of "safeguarding, punishing, supervising, and educating." In handling cases, correcting unhealthy trends in the party, and enforcing party discipline, they must consider the question of productive forces. If anything is conducive to the development of productive forces, they must safeguard and support it; if anything is detrimental to the development of productive forces, they must oppose and correct it; and if anything may disrupt productive forces, they must take resolute action against it. They must be sure that the party's work of discipline inspection helps stimulate the development of productive forces.

We must make greater efforts to form the idea of serving the reform and the policy of opening to the outside. The main task of the 13th CPC Congress is to accelerate and intensify the reform so that it will predominate over all other things. Our work of discipline inspection must be consistent with the new conditions of the reform and the policy of opening to the outside, and serve an important force for their support and promotion. We must be involved with the activities of reform and opening to the outside world, and warmly protect and support any innovation in the reform. In the case of some mistake as a result of inexperience in the reform, we must earnestly help in the summing up of experiences. We must, however, strictly deal with the cases of disrupting the reform, and resolutely correct any unhealthy tendency that may jeopardize the reform in order to create a favorable social environment for the reform and the policy of opening to the outside. To serve the reform and the policy of opening to the outside, we must go deep into the practice of reform and opening up to the outside world, take part in the reform activities and become accustomed to them. Then we must carefully study the new conditions, and solve the new problems. We must take the initiative of clearing the way for the reform and

the policy of opening to the outside so that discipline inspection organs will truly become their strong support.

We must correctly understand and uphold the unity of adhering to party spirit and implementing party policies. To build socialism with Chinese characteristics, the party has formulated and adopted a series of policies suitable for China's national conditions. When shares are issued, for example, the share-holders are permitted to receive income in the form of dividends; the owners of private enterprises employing a certain number of workers are permitted to receive some unearned income; and the scientific and technological personnel are permitted to take up side jobs in their own specialized field. These policies were based on the interests of the state, the collectives, and the people, and have given a strong impetus to the development of productive forces. They are in harmony with party spirit and party discipline. The view that the current policies and party spirit are opposites are incorrect. While upholding party spirit and advocating the spirit of unselfishness, we should also respect the principle of material benefits and unify the implementation of party spirit with the implementation of current policies; otherwise, we will be unable to handle correctly the new problems encountered in the reform and in opening up to the outside world; or ensure the smooth progress of the reform and the policy of opening to the outside. The discipline inspection commissions and their cadres at various levels must seriously study the policy stipulations concerning the reform and the policy of opening to the outside. They must firmly support whatever is consistent with the party's current policies and stop whatever runs counter to them. They should exercise extra caution when certain acts are inconsistent with some specific policy but consistent with the general policy. In this case, they must first consider the overall interests and the general orientation in studying these problems and must not act rashly.

II. Maintain a High Standard of Party Discipline With Concentrated Efforts

A basic task for discipline inspection is to maintain a high standard of party discipline with concentrated efforts. To do it well, we must first of all fully understand the importance of party discipline and strengthen our concept of discipline. The 13th CPC Congress has formulated a basic line that is consistent with our national conditions and popular will. To ensure its smooth implementation and progress and to undertake the historical mission of guiding socialist modernization, the whole party must uphold ideological and political unity and march in step, while party discipline provides the necessary guarantee. The party is now facing a stern test particularly because of its leading role in the great cause of reform and opening to the outside world. Reform and the policy of opening to the outside can bring new vitality to the party, but they also provide an opportunity for the corroded ideology of the exploiting classes to make its inroad. Some undesirable phenomena which were eradicated in the past are now resurfacing. Under

these conditions, it is now more necessary than ever to tighten the discipline so as to increase the party members' immunity from corrosion. The party organizations at all levels and all party members must firmly uphold the party's basic line in the initial stage of socialism, and its "one central task and two basic points." Every party member must behave according to party standards, fulfill the duties stipulated in the Party Constitution, and be guided by the party discipline and state law in whatever he does. This is the party's basic demand on all party members. If there is no strict discipline to back up this demand, the implementation of the party's basic line cannot be guaranteed.

To maintain a high standard of party discipline, we must conscientiously investigate and deal with cases of discipline violations in the party. According to the present situation in the province, we should from now on focus our efforts on serious cases of power abuse for private gains and infringement on people's interests; serious cases of bureaucratism which brings great losses to the party and the state; cases of luxury and extravagance at the state's expense; cases of violations of the principle of democratic centralism and encroachment on the party members democratic rights. We must adopt the policy of elimination in dealing with the corrupted elements who have committed serious offenses and damaged the cause of the party and the people. In investigating and dealing with cases of law violations by party members, we must uphold the principle that everyone is equal before party discipline. Anyone who has violated the Party Constitution and party discipline will be punished accordingly. No one can be permitted to interfere with the exercise of discipline, and no offender can go unpunished. We must firmly adhere to the principle of seeking truth from facts in investigating and dealing with cases of discipline violations. We must support and protect those who report, expose, or inform us of the facts. As to those whose reports and exposés are not completely based on facts, we should deal with the part based on facts and explain our action for the other part. If the reports or exposés are not based on facts, we should clarify matters within certain limits and pursue the liability of those who have falsified the evidence with malicious intentions, and mete out punishments according to party discipline or state law depending on the seriousness of the offense. In handling cases, we must, on the whole, meet the requirements of "clearly laid out facts, indisputable evidence, accurate conclusion, proper handling, and completed procedures" in order that our action could stand the test of history.

To maintain a high standard of party discipline, we must strictly observe policy limitations. We must protect whatever is conducive to the development of productive forces and permitted by policies. If something can be of advantage to productive forces but also has certain defects, we will keep the advantage, get rid of the defects, and carefully guide it to perfection. If we cannot immediately make a decision, not knowing the policy limitations, we should cautiously continue our investigations

and study and wait until the situation is clarified before we take any action. We must resolutely punish any offense committed in the name of reform or implementation of the policy of opening to the outside. To maintain a high standard of party discipline, we must formulate and improve the necessary rules and regulations so that there will be a basis for discipline enforcement and a criterion for defining the sphere of its application. Justice will then prevail. This will eliminate the practice of showing undue leniency or severity in the enforcement of discipline. On the one hand, we should strictly abide by the relevant policy limitations worked out by the Central Discipline Inspection Commission; and, on the other hand, we should proceed from reality, study the relevant system for the specific purpose we have in mind, and sum up and spread the experiences which have proved to be effective in our work so that our handling of cases of discipline violation may be institutionalized and standardized.

III. Improve the Party's Work Style in the New Period

To improve the party's work style, we must first conduct a scientific analysis of the situation of the party's work style in the province in order to make an accurate assessment. The party's work style here is on the whole good and has been fairly greatly improved. We must fully recognize the fundamental change in the party's work style and affirm it in a realistic way. However, we must also note the many problems which still exist. Some of these problems are quite serious and can never be taken lightly.

Leadership holds the key to the improvement of the party's work style. Since ours is the party in power, many party members are in leading positions on various fronts. The mental attitude and ideological style of the leading cadres have a close bearing on the party's work style in a region or department. Facts have proved that wherever the leadership has a good work style and plays an exemplary role, the people are less critical of the party's work; and that wherever the leadership shows any unhealthy trend, the party-people relations are unsatisfactory, and the people strongly react to the problems of the party's work style. Therefore, the leading cadres at various levels must strictly control themselves and abide by the Party Constitution, the "Guiding Principles," and other party rules in an exemplary way. They must take the lead in doing whatever they want the lower levels to do, and refrain from doing whatever they do not want the lower levels to do. They must also take the lead in controlling their own relatives and those working by their side. At the same time, they must actively combat the unhealthy trends in the party. Only thus can they help improve the party's work style.

To improve the party's work style, we must also strengthen education in party spirit in order to improve the party members' quality. We must educate the party members more intensively in party spirit and in the basic knowledge of the party. Through this education, the

party members will have a better idea of party spirit and better political quality, and be able to overcome liberalization politically, individualism ideologically, and factionalism organizationally. They will then be in unity with the CPC Central Committee ideologically and politically, serve the people wholeheartedly, and help the reform and construction to develop smoothly.

To improve the party's work style, we must strengthen inner-party supervision. We must strengthen the supervision over the party organizations and party members at lower levels by the party organizations at the next higher level and also the supervision over the basic level organizations and the people inside as well as outside the party by leading party cadres. The system of the party's organizational life must be strictly followed and every leading party cadre must attend the organizational life meetings and the democratic party life meetings, participate in serious criticism and self-criticism, and rectify the undesirable practice of listening only to praises but not unfavorable comments. We must encourage people to exercise their supervision, set up a system of consultation and dialogue between party members and non-party members, carefully attend to the people's letters and visits, pay attention to the comments on the party organizations and the leading party cadres by people inside as well as outside the party, and willingly accept their supervision. Party organizations at all levels must carry out a democratic evaluation of the party's work style before "1 July," and a democratic examination of cadres based on an evaluation of their duty performance and the fulfillment of their responsibility by the end of this year. At the same time, we must work out a set of realistic regulations for maintaining party discipline and improving the party's work style.

To improve the party's work style, we must start with those problems which have led to most complaints from the people and which are under fairly favorable conditions for a structural reform. Once these problems are uncovered, we must quickly find their solutions. In the province as a whole, our efforts should be focussed on combating the abuse of power for private gains, bureaucratism, luxury and extravagance, and other undesirable practices in personnel matters. The solution of these problems should go hand in hand with the current economic structural reform and political structural reform, and the undesirable practices should be prevented or corrected through adoption of the contracted managerial responsibility system, introduction of a competition mechanism, simplification of administration, power decentralization, and improved systems of personnel management, material supply, and residential housing. Right now, we must curtail our spending, control institutional purchases, and make a special effort to solve the problems of extravagance and waste, sumptuous eating, and other forms of luxury. In the first half of this year, we must produce some positive results in dealing with the several problems that make the peasants unhappy in the countryside.

Improvement of the party's work style calls for attention from the party committee and action by the whole party.

The party committees at all levels should include the matter of work style in their meeting agenda, and analyze and study the situation periodically. A system of responsibility for the party's work style should be established and implemented by the leadership at every level with supervision by the next higher level. There should be strict demands, strict control, and strict inspection under this system. The leading comrade of a party committee, in particular, must be brave in accepting this responsibility and directing other members, and attentive to the matter of work style. The leading party cadres of governments, enterprises, and agencies should actively improve the work style of their own departments, systems, or units. The party committees at various levels should conduct timely inspections to ascertain the situation and to use the result of their inspection as an important criterion for the evaluation of duty performance. Good work style must be commended. The leadership must be held responsible for any serious problem which has remained unsolved over a long period. The discipline inspection organs at various levels should assist the party committees in their important duty of maintaining a high standard of work style for the party. As the party committee's important assistants, they should work actively for the fulfillment of their own responsibility.

IV. Self-Improvement of the Discipline Inspection Contingent

Self-improvement of the discipline inspection contingent is an organizational guarantee for the fulfillment of the task entrusted to the discipline inspection organs by the 13th CPC Congress. The discipline inspection organs at all levels must have clearly defined lines of duty under a sound system with streamlined relations for efficient functioning. They will then be able to enforce party discipline, strengthen the party's work of discipline inspection, and ensure the effective implementation of the party's basic line.

We should carefully plan for the training of discipline inspection cadres in order to improve their quality. We

should organize them to study the basic Marxist doctrines and the party's line, principles, and policies; and help them acquire more knowledge about their vocation and economic management besides the knowledge of law, science, and culture. They should frequently visit the basic-level units to be tempered in the practice of reform and to make themselves more useful.

We must further strengthen the system of discipline inspection organs. The discipline inspection commissions at all levels should set up a system of standing committee meetings with rules and regulations for meetings and work, a system of requests for instructions, and a system of job responsibility for the cadres. These measures will fully arouse the enthusiasm and initiative of discipline inspection cadres and guarantee the fulfillment of their duties.

We must improve the method and style of work, and conduct careful investigations and study. The discipline inspection commission at each level must provide more active leadership and guidance for the commissions at the next lower level and maintain close relations with them. There should be an efficient communications network so that what is going on at the higher level can be made known to the lower levels, and vice versa. At the same time, they should perform their duties more openly and regularly report to the party or nonparty authorities on the conditions of the party's work style. They should also increase mutual understanding and support with the people by answering their pertinent questions and accepting their supervision in order that their work may have a mass foundation. They should also strengthen their work of investigation and study, set specific goals regularly, and organize their personnel to gain an insight into the situation at the basic levels, and then review the experiences. The leading cadres should conduct the investigations personally in order to obtain first-hand materials and write good investigative reports for policy decisions and guidance.

**Proposal for New KMT Political Strategy
Against Mainland**

40050401 Hong Kong CHING PAO [THE MIRROR]
in Chinese No 188, 10 Jun 88 pp 65-66

[Article by Zhong Wentai 6988 2429 3141: "How To Apply the Communist Rules of Struggle in a Flexible Manner"; originally published in the Taiwan weekly SHIHPAO HSINWEN No 104, 23-29 May 88: "New Tactics for the Kuomintang's Struggle Against Mainland China"]

[Text] Editor's note: As the KMT authorities of Taiwan lifted the travel ban to mainland China, many Taiwanese advisors have come up with many new tactics for the struggle against mainland China. "How To Apply the Communist Rules of Struggle in a Flexible Manner," an article by Zhong Wentai [6988 2429 3141] in SHIHPAO HSINWEN (No 104; 23 to 29 May), which is a weekly magazine published in Taiwan, has quite a few new ideas. The following is a reprint of this great article and the title and subtitles are added by the editor.

To use the communist rules of struggle to fight the Communist Party of China, our strategic plan should be: Relying mainly on positional warfare while using mobile and guerrilla warfares as supplements; carrying out offense and defense simultaneously; avoiding military and diplomatic fields which are the strong points of the CPC and consolidating our superior economic forces to directly penetrate the weakness of the CPC. The details of this plan are analyzed as follows:

Positional Warfare

Building a democratic political system is the only choice of strategy for the KMT. Some people think that democratic politics will weaken the ruling power of the government. This is an erroneous concept. A leader of a democratic country often can use the foundation of masses, which is established through election votes, to enhance the ruling power. The question is that he or she must be able to master the language of democratic politics and be familiar with the rules of the game.

The cause of the disorder and imbalance in Taiwan's society has a lot to do with the fact that many government officials do not understand the connotations and rules of modern politics.

So, at the 13th National KMT Congress to be held on 7 July, the younger generation should step forward bravely and readjust as soon as possible the ruling structure that has become incompatible with the modern environment. The fulfillment of this task symbolizes the completion of the building of China's greatest anti-communist front. From now on, what the CPC has to face is not just the KMT, but the 20 million people of Taiwan as well who are ideologically opposed to the mainland.

Militarily, we should of course maintain strong forces and never lower our guard against the enemy.

Politically, we may uphold the government's stand of "three no contacts" and completely negate the value of the CPC's existence. This point, like the CPC's principle of never giving up on the armed invasion of Taiwan, is to maintain permanently the right and legitimacy to overthrow the other side.

"Unifying China with the Three People's Principles" is the ultimate goal, but it should not be used as the slogan of propaganda at the present stage because during its 40-year rule of China, the CPC has already vilified the Three People's Principles and the KMT. Since the Three People's Principles is practically equivalent to the KMT in political sense, using the slogan of "unifying China with the Three People's Principles," which gives people a strong partisan impression and easily causes resentment, is an unwise practice. Imagine who would be interested if the communists suggested "unifying China with communism."

The most appropriate political slogan at the present should be "unifying China with democracy," "unifying China with freedom," or something like "today's Taiwan is tomorrow's China." We may follow the perceptual line of political propaganda slogans and ask civilian advertising companies to assist in design, like the propaganda tactics adopted by Guan Zhong [7070 0022] during his campaign for the election of the Legislative Committee.

Guerrilla Warfare

After determining the strategic position, we must strengthen our self confidence. As the saying goes, "despise our enemies strategically but take them seriously tactically," we should believe that the 1 billion people will eventually cast aside communism and stand by what we represent—democratic justice. Therefore, we should dare to allow people's contacts and let the people have a real good look. We must not lose the opportunity of seeking a greater political goal for fear of some communist spies.

Continuing to prohibit people's exchanges between the two side of the Taiwan Straits is a practice open to question. It is against the will of the people and has put us in a politically passive position.

Judged by this point, the recent incident in which two merchants were severely punished for trading with the mainland indicates unfortunately a failure in keeping abreast of developments in the will of the people.

Today many merchants have invested in the mainland. Many of them are in the southern part of Fujian Province. Judged from the current situation of mainland China, they are bound to use the back door, offer bribes and gifts, or even establish connections with those military leaders who want to make some money. Instead of

dwelling only on the possibility of our merchants being used by the CPC, we should realize that being in the center of the social structure of mainland China, these merchants have more opportunities to use the CPC. However, the most important is not the spy activity but the political effect of softening the fighting will of the other side and changing our image among the people of the mainland, which could be achieved through the vigorous activities of these merchants.

In addition, we should allow top notch Taiwan singers to form groups to visit mainland China and hold concerts there. Those singers who like to sing "rebellious songs" should be especially encouraged to go to the mainland to attract young people and cultivate their anti-authority consciousness. We should also recommend many movies of strong social introspection for mainland China. Don't forget how great and deep an impact such movies as "Street Angel" and "Cloud and Moon Over 8,000 Li of Road" made on the people in the 1930's.

To put it simply, through people's exchanges, we should dump all forms of cultural and ideological rebellion, which our democratic society can withstand, onto the new generation of mainland China while appearing as a kind friend on the cultural and ideological stage of the mainland.

In sum, the guerrilla warfare defined here is to attack the society of mainland China with the animated, rebellious, and creative characters of the democratic society. All this can be achieved without any special planning by simply allowing exchanges between individuals. The CPC will find it impossible to defend against this kind of political invasion. This is why it is called a guerrilla warfare.

Mobile Warfare

In addition to the above guerrilla warfare which is almost "spontaneous," we must organize some medium-sized purposeful civilian organizations, plot exchanges at a higher level, and attack the enemy's weakness in a systematic and planned manner. For instance, we can establish under civilian names "China's educational foundation," "China's cultural foundation," "China's political society," or "China's economic research society." Since similar units already exist, all we have to do is to reorganize them, add new staff (we must never allow anybody to hold down a job without doing a stroke of work), and assign them new tasks.

The two weakest points of the CPC at the present are intellectual and price policies which have become the complaint of practically everyone.

The above-mentioned civilian units may enter the mainland in a high posture to establish educational foundations, offer scholarships and stipends or selective living subsidies, and demand that the foundations deal directly with recipients.

If the CPC approves, mainland intellectuals will begin to draw wages from the KMT.

If the CPC disapproves, the KMT will win over the hearts of the people without spending 1 cent.

If the CPC disapproves and voluntarily raises intellectuals' wages, the KMT will be credited and remembered by the people. The above proposal benefits the KMT no matter what.

Civilian economic societies should enter the mainland to make criticisms and proposals on material policies in accordance with the free market concept advocated by mainland economists.

Political and academic units may invite, in the name of exchanges, mainland political scholars and members of the "Chinese People's Association" in the United States to discuss issues on democracy and freedom.

The above are our enemy's weaknesses as well as our strong points, so they are worth spending a large amount of money to carry out systematic development. The effect this will cause on the security of Taiwan far exceeds what the development of new weapons will cause.

On the diplomatic issue, our past concept on positional warfare was wrong. The result of the positional warfare was: "we retreated as our enemy advanced and we advanced as our enemy retreated." Everything was direct confrontation.

In the current stage of diplomatic struggle, our side should be flexible and adopt the principle of "creating confusion among enemy troops" to coordinate our economic, trade, cultural, and ideological attacks at the main battleground. The past practice of insisting on using our national title, which was like a lone soul admiring his own purity, must be thoroughly criticized. The case of the Asian Bank is a good example. From now on we should be more thick-skinned and try to create confusion for the CPC to gain maximum essential interests. We should even create some selective incidents to make a feint to the east and attack in the west so as to divert the CPC's attention and focus our main forces on the battleground of mainland China.

All mobile wars must be planned and promoted. Therefore, it is necessary for Li Qinghua to propose setting up a "department for mainland affairs." This proposal, however, was officially voted down recently.

Peaceful Road

The above-mentioned "positional warfare," "mobile warfare," and "guerrilla warfare" may seem familiar to many people.

Yes, they are familiar to some people because they are basically a process for unifying our enemy.

In the past, the KMT was reluctant to talk to the CPC simply because it did not have bargaining chips for negotiation and because it knew it would lose if it did. However, if the KMT makes good use of various channels now available and wage a successful struggle against the enemy for many years, the people of the mainland will turn their hearts to democracy and freedom and their animosity toward the KMT may also change to a good impression or even respect. By that time, the KMT will be ready to talk.

Some people may ask: If the above strategy is thoroughly implemented, the cultural, economic, and trade relations between the two sides of the Taiwan Straits are bound to be closer. Will the CPC use this to put pressure on us?

This worry is justified. However, let's take a look at the other side of this issue. If the above strategy is successfully implemented, it means that the mainland people's income is increased, social democracy is expanded, and ideology and horizon is broadened. This also means that the people would respect and appreciate Taiwan and that the CPC's control over the people would be much weaker than before.

To make it brief, our strategic goal is to force the enemy to follow the tide of our times and control the leading

factor of the trend to force the CPC to move forward or face the possibility of being overthrown. However, if the CPC moves forward, it will not be a communist party.

Not long ago, the development of nuclear weapons in Taiwan became the focus of world attention. Some people may ask: is it possible to counterattack the mainland militarily? Theoretically and technically speaking, when political conditions are ripe, military counterattack is possible, but it is unnecessary in reality. First, the great antipersonnel power of modern weapons will result in grave losses of Chinese lives and damage to Chinese construction. Is it worth it? (This is why the CPC is not making any move without careful thought.) Second, if the counterattack succeeds, a new generation of military strong men is very likely to appear, which means that democratic construction probably has to start all over again. It is not worth it. Third, an imperialist power might sneak in during the confusion of Chinese civil war.

To put it simply, whoever can comply with, dominate, and win the hearts of the people wins in a political war. This is an irrefutable truth. Taking the peaceful road to China's future reunification is the only hope for Chinese descendants.

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